

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

TRAVERSE COUNTY
WHEATON, MINNESOTA

YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - 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 Employee's 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, 2004



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

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2004

			<u>Term Expires</u>
Elected			
Commissioners			
Chair	Gerald Kaus	District 1	January 2007
Board Member	William Gibson	District 2	January 2005
Vice Chair	David Naatz	District 3	January 2007
Board Member	Dean Gallup	District 4	January 2005
Board Member	Norma Holtz	District 5	January 2005
Attorney	Matthew Franzese		January 2007
Auditor	John A. Muellenbach		January 2007
County Recorder	LeAnn Peyton		January 2007
Registrar of Titles	LeAnn Peyton		January 2007
County Sheriff	Donald Montonye		January 2007
Treasurer	Allen M. Weick		January 2007
Appointed			
County Coordinator	Janet Raguse		Indefinite
Assessor	Lois Sumerfelt		January 2005
County Engineer	Larry Haukos		May 2008
Coroner	Dr. Jay Schmidt		January 2009
Examiner of Titles	Lowell Nelson		Indefinite
Nursing Home Administrator	Chere Rikimoto		Indefinite
Welfare Director	Christian Boe		Indefinite
Veterans Service Officer	Gary Tracy		Indefinite

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STATE OF MINNESOTA

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PATRICIA ANDERSON
STATE AUDITOR

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, Minnesota, as of and for the year ended December 31, 2004, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of Traverse County's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Traverse Care Center Enterprise Fund. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Traverse Care Center, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, 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, 2004, 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 the notes to the financial statements, Traverse County adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as amended; and Statement No. 38, *Certain Financial Statement Note Disclosures*, as of and for the year ended December 31, 2004. These statements result in a change in format and content of the basic financial statements.

The Management's Discussion and Analysis and required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Traverse County's basic financial statements. The supplementary information and other schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2006, 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/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: January 17, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2004
(Unaudited)**

INTRODUCTION

Traverse County's Management's Discussion and Analysis (MD&A) presents a summary of Traverse County's financial activities for the fiscal year ended December 31, 2004. Fiscal year 2004 represents the first year in which Traverse County implemented the provisions of Governmental Accounting Standards Board (GASB) Statement 34. It will focus on the current year's activities and changes and should be read in combination with Traverse County's financial statements and the notes to the financial statements. Because fiscal year 2004 is the first year in which Traverse County applied the requirements of GASB Statement 34, this MD&A offers limited comparisons with previous years.

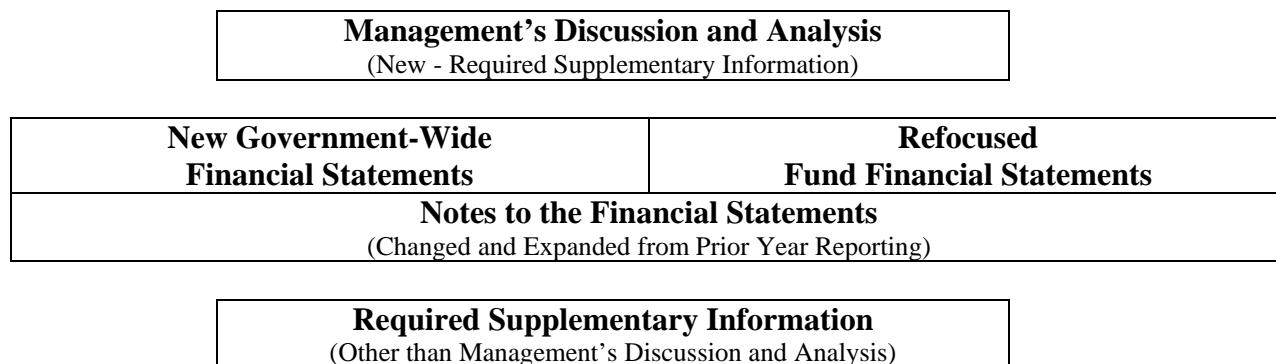
FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$27,186,404, of which Traverse County has invested \$22,893,700 in capital assets, net of related debt; \$2,394,981 is restricted to specific uses by Traverse County and \$1,897,723 is unrestricted.
- Proprietary (business-type) activities (Traverse Care Center and Prairieview Place) include total net assets of \$1,531,978, of which a deficit of \$593,655 is invested in capital assets, net of related debt; \$799,289 is unrestricted, with \$1,326,344 being restricted for specific uses.
- Traverse County's total net assets (governmental activities and business-type activities) total \$28,718,382, of which \$22,300,045 is invested in capital assets, net of related debt; \$3,721,325 of the total net assets is restricted for specific uses, and \$2,697,012 is unrestricted.
- The expenses of Traverse County's governmental activities for the year were \$6,486,591. General property tax revenues and other revenue sources totaling \$2,970,232 funded Traverse County's total net cost of \$1,899,713.
- Traverse County's governmental funds' fund balances increased by \$3,257 during 2004.

- During 2004, Traverse County did not issue any new bonded debt. Traverse County does have outstanding bonded debt totaling \$5,430,464 (of which \$370,000 is governmental activities and \$5,060,464 is business-type activities), capital leases of \$213,288 all for governmental activities, and a loan payable of \$400,000 for business-type activities.
- Long-term liabilities due to compensated absences total \$268,983, with \$174,939 due within one year.

OVERVIEW OF THE FINANCIAL STATEMENTS

Traverse County's MD&A serves as an introduction to the basic financial statements. Traverse 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 inter-related.



Traverse County presents two government-wide financial statements. They are the Statement of Net Assets and the Statement of Activities. These two government-wide financial statements provide information about the activities of Traverse County as a whole and present a longer-term view of Traverse County's finances. Traverse 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 Traverse County business-type activities (Traverse Care Center and Prairieview Place) operations in more detail than the government-wide statements by providing information about Traverse County's most significant/major funds. For proprietary activities, these statements provide detailed financial information relating to Congregate Housing and Nursing Home services. The remaining statement provides financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of 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 Traverse County receives the revenue or pays the expenditure, and reports Traverse County's net assets and changes in them. You can think of Traverse County's net assets--the difference between assets and liabilities--as one way to measure Traverse 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 Traverse County's property tax base and the general economic conditions of the state and county, to assess the overall health of Traverse County.

Fund Financial Statements

Fund financial statements provide detailed information about the significant funds, not the County as a whole. These fund statements are divided into governmental, proprietary, and fiduciary funds. The governmental funds are constructed on a modified accrual basis and the proprietary and fiduciary funds on a full accrual basis. In Traverse County, a governmental fund balance sheet is provided for General, Road and Bridge Special Revenue, Social Services Special Revenue, and nonmajor funds. All but two of Traverse County's basic services are reported in the governmental fund category. They focus on how money flows into and out of these funds and shows the balances remaining at year-end that are available for expenditures. The modified accrual accounting method measures cash and other financial assets, such as investments, that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of Traverse County's general government operations and the basic services it provides. Traverse County's governmental fund information helps determine whether financial resources are available that Traverse County can spend in the near future to finance its programs. A reconciliation statement follows each governmental fund statement and depicts the relationship between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds.

Traverse County charges external customers for Congregate Housing and Nursing Home services and reports the financial activities for those services in proprietary funds. Traverse County reports Prairieview Place and Traverse Care Center in the same way the County reports all activities in the Statement of Net Assets and the Statement of Activities. In fact, Prairieview Place and Traverse Care Center are the same as the business-type activities Traverse County reports in the government-wide statements, but the fund statements provide more detail and additional information, such as cash flows.

Traverse County acts as an agent over assets that the County holds for other governmental entities. Traverse County reports its fiduciary activities in a separate Statement of Fiduciary Net Assets. Traverse County excludes these assets from the County's other financial statements because Traverse County cannot use these assets to finance its operations. Traverse County is responsible for ensuring that the assets reported in the agency funds are used for their intended purposes

THE COUNTY AS A WHOLE

Traverse County's combined net assets for the year ended December 31, 2004, were \$28,718,382. The analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of Traverse County's governmental and business-type activities. In subsequent years, comparison with the prior year will be provided. Since this is the first year of implementation of this reporting model, comparisons have not been provided.

Table 1
Net Assets
December 31, 2004

	Governmental Activities	Business-Type Activities	Total
Assets			
Current and other assets	\$ 5,059,597	\$ 2,676,007	\$ 7,735,604
Capital assets	23,476,988	4,866,809	28,343,797
Total Assets	\$ 28,536,585	\$ 7,542,816	\$ 36,079,401
Liabilities			
Long-term liabilities outstanding	\$ 774,559	\$ 5,538,176	\$ 6,312,735
Other liabilities	575,622	472,662	1,048,284
Total Liabilities	\$ 1,350,181	\$ 6,010,838	\$ 7,361,019
Net Assets			
Invested in capital assets, net of debt	\$ 22,893,700	\$ (593,655)	\$ 22,300,045
Restricted	2,394,981	1,326,344	3,721,325
Unrestricted	1,897,723	799,289	2,697,012
Total Net Assets	\$ 27,186,404	\$ 1,531,978	\$ 28,718,382

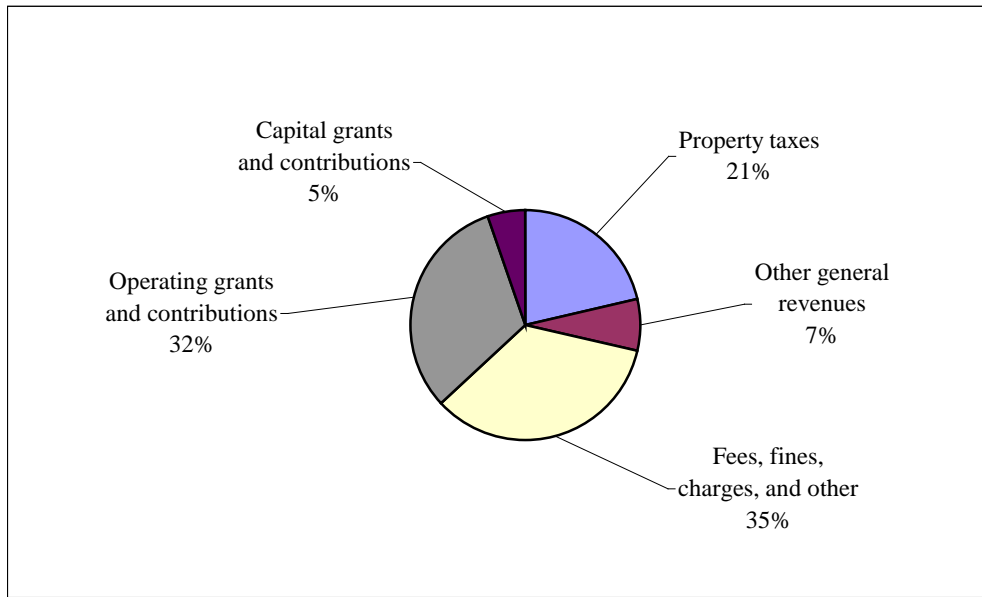
Traverse County's total net assets for the year ended December 31, 2004, total \$28,718,382. Unrestricted net assets totaling \$2,697,012 are available to Traverse County to finance day-to-day operations. Of the unrestricted net assets, \$1,897,723 is available for governmental activities, and \$799,289 is available for business-type activities.

Table 2
Changes in Net Assets
Year Ended December 31, 2004

	Governmental Activities	Business-Type Activities	Total
Revenues			
Program revenues			
Fees, fines, charges, and other	\$ 736,477	\$ 2,826,811	\$ 3,563,288
Operating grants and contributions	3,293,256	1,772	3,295,028
Capital grants and contributions	557,145	-	557,145
General revenues			
Property taxes	2,222,946	-	2,222,946
Other taxes (payment in lieu of tax)	10,306	-	10,306
Grants and contributions	653,788	-	653,788
Other general revenues	83,192	7,286	90,478
Total Revenues	<u>\$ 7,557,110</u>	<u>\$ 2,835,869</u>	<u>\$ 10,392,979</u>
Expenditures			
Program expenses			
General government	\$ 1,181,518	\$ -	\$ 1,181,518
Public safety	786,492	-	786,492
Highways and streets	2,489,191	-	2,489,191
Human services	1,545,860	-	1,545,860
Health	68,217	-	68,217
Culture and recreation	66,688	-	66,688
Conservation of natural resources	275,755	-	275,755
Economic development	9,863	-	9,863
Sanitation	45,472	-	45,472
Interest	17,535	-	17,535
Traverse Care Center	-	2,591,479	2,591,479
Prairieview Place	-	253,091	253,091
Total Expenditures	<u>\$ 6,486,591</u>	<u>\$ 2,844,570</u>	<u>\$ 9,331,161</u>
Excess (Deficiency) Before Special Items and Transfers	\$ 1,070,519	\$ (8,701)	\$ 1,061,818
Special items	-	-	-
Transfers	(14,616)	14,616	-
Increase (Decrease) in Net Assets	<u>\$ 1,055,903</u>	<u>\$ 5,915</u>	<u>\$ 1,061,818</u>

Traverse County's total revenues for the year ended December 31, 2004, were \$10,392,979. The total cost of Traverse County programs and services for the year ended December 31, 2004, was \$9,331,161. The net assets for Traverse County's governmental and business-type activities increased by \$1,061,818.

Total County Revenues



Governmental Activities

Revenues for Traverse County's governmental activities for 2004 were \$7,557,110. Traverse County's costs for all governmental activities for 2004 were \$6,486,591. As shown in Traverse County's Statement of Activities, the amount that County taxpayers ultimately financed for these governmental activities through local property taxation was \$2,222,946 because \$736,477 of the cost was paid by those who directly benefited from the programs and \$3,850,401 was paid by other governments and organizations that subsidized certain programs with grants and contributions. Traverse County paid for the remaining "public benefit" portion of governmental activities with \$653,788 in operating and capital grants and contributions, interest income of \$83,192, and other miscellaneous income of \$10,306.

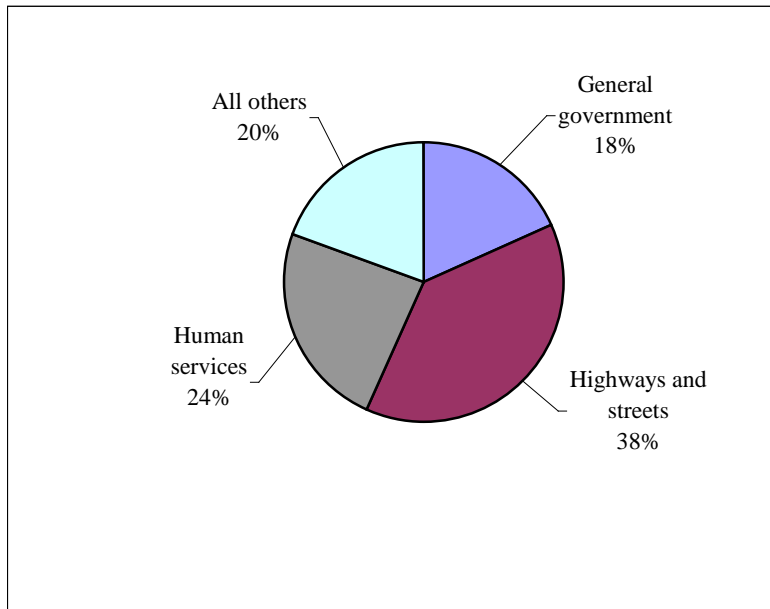
Table 3 presents the cost of each of Traverse County's three largest program functions, as well as each function's net cost (total cost, less revenues generated by the activities). The net cost shows the financial burden placed on Traverse County's taxpayers by each of these functions.

Table 3
Governmental Activities
Year Ended December 31, 2004

	<u>Total Cost of Service</u>	<u>Revenue Generated</u>	<u>Net Cost of Services</u>
Program expenses			
General government	\$ 1,181,518	\$ 264,508	\$ (917,010)
Highways and streets	2,489,191	3,000,638	511,447
Human services	1,545,860	877,347	(668,513)
All others	1,270,022	444,385	(825,637)
Total Program Expenses	\$ 6,486,591	\$ 4,586,878	\$ (1,899,713)

(Unaudited)

Governmental Activities Expenses



Business-Type Activities

Operating revenues of Traverse County's business-type activities (see Exhibit 8) for the year ended 2004 were \$2,826,811, and nonoperating revenues were \$9,058. Expenses of Traverse County's business-type activities (see Table 2) for 2004 were \$2,844,570, leaving a net loss of \$8,701 before transfers in from the General Fund of \$14,616, resulting in an increase in net assets of \$5,915.

THE COUNTY'S FUNDS

At year-end, the governmental funds (see the Balance Sheet) showed a combined fund balance of \$1,892,403 that is above last year's total of \$1,889,146 by \$3,257. Net excess revenues over expenditures of \$17,133, plus an increase in inventory of \$740, were offset by a transfer out to the Prairieview Place Enterprise Fund of \$14,616.

General Fund Budgetary Highlights

The Traverse County Board of Commissioners did not make any budgetary amendments or revisions in 2004.

General Fund actual revenues exceeded budget expectations by \$240,308, and actual expenditures exceeded budgeted expenditures by \$377,783. Taxes collected were \$99,671 less than budgeted for, but this was offset by intergovernmental revenue of \$185,443 and miscellaneous revenue of \$159,145 over the budgeted amount.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Table 4
Capital Assets at December 31, 2004
(Net of Depreciation)

	Governmental Activities	Business-Type Activities
Land	\$ 170,052	\$ 16,175
Construction in progress	1,562,426	3,323,628
Right-of-way	230,786	-
Building	1,641,727	1,415,008
Land improvements	25,803	11,213
Machinery, furniture, and equipment	1,353,807	100,785
Infrastructure	18,492,387	-
Totals	<u>\$ 23,476,988</u>	<u>\$ 4,866,809</u>

Debt

As of December 31, 2004, Traverse County had \$6,043,288 in long-term obligations outstanding compared with \$5,873,855 as of December 31, 2003--an increase of 2.9 percent--as shown in Table 5.

Table 5
Outstanding Debt at Year-End

	Governmental Activities		Business-Type Activities		Totals	
	2004	2003	2004	2003	2004	2003
Bonds payable						
General obligation bonds	\$ -	\$ -	\$ 1,315,000	\$ 1,345,000	\$ 1,315,000	\$ 1,345,000
Revenue bonds	-	-	3,745,000	3,745,000	3,745,000	3,745,000
General obligation notes	370,000	550,000	-	-	370,000	550,000
Loans	-	-	400,000	-	400,000	-
Capital leases	213,288	233,855	-	-	213,288	233,855
Totals	<u>\$ 583,288</u>	<u>\$ 783,855</u>	<u>\$ 5,460,000</u>	<u>\$ 5,090,000</u>	<u>\$ 6,043,288</u>	<u>\$ 5,873,855</u>

New debt resulted from a USDA loan to help fund the Traverse Care Center remodeling project in the amount of \$400,000.

The state limits the amount of net debt that the County can issue to two percent of the market value of all taxable property in the County. The County's outstanding net debt is significantly below this \$11,739,678 state-imposed limit.

Other obligations include compensated absences. Traverse County's notes to the financial statements provide detailed information about the County's long-term liabilities.

FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for the business-type activities.

- For the past two years, the State of Minnesota has projected a budget deficit. How the State of Minnesota resolves this deficit could have a significant impact on future Traverse County budgets. Major revenue sources for the County are state-paid aids, credits, and grants. Should the State of Minnesota significantly reduce these revenues or pass on costs to the County, it would have a significant impact on next year's budget.
- Traverse County's net tax capacity rates fluctuate up and down even though the overall net tax levy has continued to increase. Traverse County has an agricultural tax base, and keeping it healthy is very important to the County's overall financial condition.
- The net property tax levies are planned to increase 23.7 percent from 2004.
- The County will be planning for facility needs and the possibility of a new jail project.
- The County is reviewing revenue sources and considering cost-effective and efficient means for the delivery of Traverse County programs and services that will influence the development of future budgets.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

Traverse County's financial reports provide citizens, taxpayers, customers, investors, and creditors with a general overview of Traverse County's finances, and they show Traverse County's accountability for the money it receives and spends.

If you have questions about this report, or need additional financial information, contact John Muellenbach, Traverse County Auditor, by telephone at 320-320-4242; by email at john.muellenbach@co.traverse.mn.us; or by mail at Traverse County Courthouse, P. O. Box 428, Wheaton, Minnesota 56267.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2004**

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and pooled investments	\$ 1,978,529	\$ 945,972	\$ 2,924,501
Investments	66,694	35,292	101,986
Taxes receivable			
Current - net	18,312	-	18,312
Prior - net	22,434	-	22,434
Special assessments receivable			
Current - net	2,545	-	2,545
Prior - net	2,143	-	2,143
Accounts receivable - net	18,093	203,771	221,864
Accrued interest receivable	4,688	-	4,688
Internal balances	(364)	364	-
Due from other governments	2,905,208	-	2,905,208
Prepaid items	11,064	10,045	21,109
Inventories	30,251	21,939	52,190
Restricted assets			
Cash and pooled investments - temporarily restricted	-	1,334,798	1,334,798
Investments	-	17,390	17,390
Residents' trust fund	-	9,738	9,738
Deferred charges	-	96,698	96,698
Capital assets			
Non-depreciable	1,963,264	3,339,803	5,303,067
Depreciable - net of accumulated depreciation	21,513,724	1,527,006	23,040,730
Total Assets	\$ 28,536,585	\$ 7,542,816	\$ 36,079,401
<u>Liabilities</u>			
Accounts payable	\$ 203,699	\$ 40,512	\$ 244,211
Salaries payable	3,107	-	3,107
Contracts payable	63,012	-	63,012
Due to other governments	299,981	510	300,491
Accrued interest payable	5,823	-	5,823
Payable from restricted assets			
Contracts payable	-	336,826	336,826
Interest payable	-	76,622	76,622
Residents' trust fund	-	9,738	9,738
Rent deposits	-	8,454	8,454
Long-term liabilities			
Due within one year	298,280	133,638	431,918
Due in more than one year	476,279	5,404,538	5,880,817
Total Liabilities	\$ 1,350,181	\$ 6,010,838	\$ 7,361,019

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

***EXHIBIT 1
(Continued)***

**STATEMENT OF NET ASSETS
DECEMBER 31, 2004**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Net Assets</u>			
Invested in capital assets - net of related debt	\$ 22,893,700	\$ (593,655)	\$ 22,300,045
Restricted for			
General government	175,203	-	175,203
Public safety	6,034	-	6,034
Highways and streets	2,213,744	-	2,213,744
Debt service	-	1,326,344	1,326,344
Unrestricted	1,897,723	799,289	2,697,012
Total Net Assets	<u>\$ 27,186,404</u>	<u>\$ 1,531,978</u>	<u>\$ 28,718,382</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>
Primary Government		
Governmental activities		
General government	\$ 1,181,518	\$ 230,628
Public safety	786,492	195,274
Highways and streets	2,489,191	193,008
Sanitation	45,472	-
Human services	1,545,860	103,112
Health	68,217	-
Culture and recreation	66,688	12,845
Conservation of natural resources	275,755	1,610
Economic development	9,863	-
Interest	17,535	-
Total governmental activities	\$ 6,486,591	\$ 736,477
Business-type activities		
Traverse Care Center	\$ 2,591,479	\$ 2,606,331
Prairieview Place	253,091	220,480
Total business-type activities	\$ 2,844,570	\$ 2,826,811
Total Primary Government	\$ 9,331,161	\$ 3,563,288

General Revenues

Property taxes
Grants and contributions not restricted to specific programs
Payment in lieu of tax
Investment income

Transfers

Total general revenues and transfers

Change in net assets

Net Assets - Beginning

Net Assets - Ending

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
\$ 33,880	\$ -	\$ (917,010)	\$ -	\$ (917,010)
58,054	-	(533,164)	-	(533,164)
2,308,390	499,240	511,447	-	511,447
4,688	-	(40,784)	-	(40,784)
774,235	-	(668,513)	-	(668,513)
-	-	(68,217)	-	(68,217)
64,910	-	11,067	-	11,067
49,099	57,905	(167,141)	-	(167,141)
-	-	(9,863)	-	(9,863)
-	-	(17,535)	-	(17,535)
\$ 3,293,256	\$ 557,145	\$ (1,899,713)	\$ -	\$ (1,899,713)
\$ 1,772	\$ -	\$ -	\$ 16,624	\$ 16,624
-	-	-	(32,611)	(32,611)
\$ 1,772	\$ -	\$ -	\$ (15,987)	\$ (15,987)
\$ 3,295,028	\$ 557,145	\$ (1,899,713)	\$ (15,987)	\$ (1,915,700)
		\$ 2,222,946	\$ -	\$ 2,222,946
		653,788	-	653,788
		10,306	-	10,306
		83,192	7,286	90,478
		(14,616)	14,616	-
		\$ 2,955,616	\$ 21,902	\$ 2,977,518
		\$ 1,055,903	\$ 5,915	\$ 1,061,818
		26,130,501	1,526,063	27,656,564
		\$ 27,186,404	\$ 1,531,978	\$ 28,718,382

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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, 2004**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>					
Cash and pooled investments	\$ 690,730	\$ 448,273	\$ 422,573	\$ 355,721	\$ 1,917,297
Petty cash and change funds	1,400	-	100	-	1,500
Undistributed cash in agency funds	37,004	8,583	10,213	3,932	59,732
Investments	66,694	-	-	-	66,694
Taxes receivable					
Current	13,746	-	4,566	-	18,312
Prior	8,600	7,753	3,692	2,389	22,434
Special assessments receivable					
Current	2,545	-	-	-	2,545
Prior	2,143	-	-	-	2,143
Accounts receivable	574	11,196	6,323	-	18,093
Accrued interest receivable	4,688	-	-	-	4,688
Due from other funds	19,961	3,657	1,476	-	25,094
Due from other governments	99,263	2,706,830	97,649	-	2,903,742
Inventories	-	30,251	-	-	30,251
Prepaid items	4,817	6,247	-	-	11,064
Total Assets	<u>\$ 952,165</u>	<u>\$ 3,222,790</u>	<u>\$ 546,592</u>	<u>\$ 362,042</u>	<u>\$ 5,083,589</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 55,619	\$ 139,041	\$ 9,039	\$ -	\$ 203,699
Salaries payable	1,258	1,849	-	-	3,107
Contracts payable	-	63,012	-	-	63,012
Due to other funds	3,960	682	26,864	-	31,506
Due to other governments	2,169	147,453	142,845	-	292,467
Deferred revenue - unavailable	27,057	2,536,103	31,846	2,389	2,597,395
Total Liabilities	\$ 90,063	\$ 2,888,140	\$ 210,594	\$ 2,389	\$ 3,191,186
Fund Balances					
Reserved for					
Boat and water safety	\$ 6,034	\$ -	\$ -	\$ -	\$ 6,034
Future plant expansion	170,386	-	-	-	170,386
Inventories	-	30,251	-	-	30,251
Missing heirs	29,499	-	-	-	29,499
Prepaid items	4,817	6,247	-	-	11,064
State-aid highway projects	-	113,267	-	-	113,267
Unreserved					
Undesignated	651,366	184,885	335,998	-	1,172,249
Unreserved, reported in nonmajor					
Special revenue funds	-	-	-	127,884	127,884
Debt service fund	-	-	-	200,235	200,235
Capital projects fund	-	-	-	31,534	31,534
Total Fund Balances	\$ 862,102	\$ 334,650	\$ 335,998	\$ 359,653	\$ 1,892,403
Total Liabilities and Fund Balances	\$ 952,165	\$ 3,222,790	\$ 546,592	\$ 362,042	\$ 5,083,589

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004**

Fund balances - total governmental funds (Exhibit 3)	\$	1,892,403
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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.		23,476,988
--	--	------------

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		2,597,395
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Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.

Capital notes payable	\$ (370,000)		
Capital leases	(213,288)		
Compensated absences	(191,271)		
Accrued interest payable	(5,823)		
	<u> </u>		<u>(780,382)</u>

Net assets of governmental activities (Exhibit 1)	\$	<u>27,186,404</u>
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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes	\$ 1,288,462	\$ 349,704	\$ 418,549	\$ 168,246	\$ 2,224,961
Special assessments	57,905	-	-	-	57,905
Licenses and permits	1,824	-	-	-	1,824
Intergovernmental	594,481	3,568,120	878,102	48,338	5,089,041
Charges for services	107,402	177,987	11,755	-	297,144
Fines and forfeits	318	-	-	-	318
Interest on investments	83,192	-	-	-	83,192
Miscellaneous	266,845	16,455	91,357	63,968	438,625
Total Revenues	\$ 2,400,429	\$ 4,112,266	\$ 1,399,763	\$ 280,552	\$ 8,193,010
Expenditures					
Current					
General government	\$ 1,154,467	\$ -	\$ -	\$ -	\$ 1,154,467
Public safety	743,367	-	-	22,468	765,835
Highways and streets	-	3,705,028	-	154,475	3,859,503
Sanitation	42,965	-	-	-	42,965
Human services	-	-	1,541,415	-	1,541,415
Health	68,217	-	-	-	68,217
Culture and recreation	66,520	-	-	-	66,520
Conservation of natural resources	273,113	-	-	-	273,113
Economic development	9,863	-	-	-	9,863
Intergovernmental	-	173,531	-	-	173,531
Debt service					
Principal retirement	20,567	-	-	180,000	200,567
Interest	5,232	-	-	14,649	19,881
Total Expenditures	\$ 2,384,311	\$ 3,878,559	\$ 1,541,415	\$ 371,592	\$ 8,175,877
Excess of Revenues Over (Under) Expenditures	\$ 16,118	\$ 233,707	\$ (141,652)	\$ (91,040)	\$ 17,133
Other Financing Sources (Uses)					
Transfers in	\$ -	\$ -	\$ -	\$ 63,916	\$ 63,916
Transfers out	(78,532)	-	-	-	(78,532)
Total Other Financing Sources (Uses)	\$ (78,532)	\$ -	\$ -	\$ 63,916	\$ (14,616)
Net Change in Fund Balance	\$ (62,414)	\$ 233,707	\$ (141,652)	\$ (27,124)	\$ 2,517
Fund Balance - January 1	924,516	100,203	477,650	386,777	1,889,146
Increase (decrease) in reserved for inventories	-	740	-	-	740
Fund Balance - December 31	\$ 862,102	\$ 334,650	\$ 335,998	\$ 359,653	\$ 1,892,403

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

Net change in fund balances - total governmental funds (Exhibit 5) **\$ 2,517**

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 expenditures are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues between the fund statements and the statement of activities is the increase (decrease) in revenues deferred as unavailable.

Deferred revenue - December 31	\$ 2,597,395	
Deferred revenue - January 1	<u>(3,233,295)</u>	(635,900)

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. Also, in the statement of activities, only a gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, any 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 capital assets disposed of.

Expenditures for general capital assets and infrastructure	\$ 2,477,266	
Net book value of disposed assets	(34,967)	
Current year depreciation	<u>(926,037)</u>	1,516,262

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		
Capital lease	\$ 20,567	
Capital notes	<u>180,000</u>	200,567

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	\$ 2,346	
Change in compensated absences	(30,629)	
Change in inventories	<u>740</u>	<u>(27,543)</u>

Change in net assets of governmental activities (Exhibit 2) **\$ 1,055,903**

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PROPRIETARY FUNDS

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2004**

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
Assets			
Current assets			
Cash and pooled investments	\$ 47,530	\$ 898,392	\$ 945,922
	50	-	50
Investments	-	35,292	35,292
Accounts receivable - net	-	203,771	203,771
Due from other funds	391	-	391
Inventories	613	21,326	21,939
Prepaid items	-	10,045	10,045
Total current assets	\$ 48,584	\$ 1,168,826	\$ 1,217,410
Restricted assets			
Cash and pooled investments	\$ 179,337	\$ 1,155,461	\$ 1,334,798
Investments	-	17,390	17,390
Residents' trust fund	-	9,738	9,738
Total restricted assets	\$ 179,337	\$ 1,182,589	\$ 1,361,926
Noncurrent assets			
Advance to other funds	\$ -	\$ 56,961	\$ 56,961
Deferred debt issuance costs	-	96,698	96,698
Capital assets			
Nondepreciable	-	3,339,803	3,339,803
Depreciable - net	1,063,774	463,232	1,527,006
Total noncurrent assets	\$ 1,063,774	\$ 3,956,694	\$ 5,020,468
Total Assets	\$ 1,291,695	\$ 6,308,109	\$ 7,599,804

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT 7
(Continued)**

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2004**

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
Liabilities			
Current liabilities			
Accounts payable	\$ 3,079	\$ 37,433	\$ 40,512
Compensated absences payable - current	142	77,570	77,712
Due to other funds	27	-	27
Due to other governments	510	-	510
General obligation bonds payable - current	30,000	-	30,000
Total current liabilities	\$ 33,758	\$ 115,003	\$ 148,761
Current liabilities payable from restricted assets			
Contracts payable	\$ -	\$ 336,826	\$ 336,826
Interest payable	-	76,622	76,622
Residents' trust fund	-	9,738	9,738
Rent deposits	8,454	-	8,454
Loans payable - current	-	25,926	25,926
Total current liabilities payable from restricted assets	\$ 8,454	\$ 449,112	\$ 457,566
Noncurrent liabilities			
Advance from other funds	\$ 56,961	\$ -	\$ 56,961
Loans payable - long term	-	374,074	374,074
General obligation bonds payable - long-term	1,274,330	-	1,274,330
Revenue bonds payable - long-term	-	3,756,134	3,756,134
Total noncurrent liabilities	\$ 1,331,291	\$ 4,130,208	\$ 5,461,499
Total Liabilities	\$ 1,373,503	\$ 4,694,323	\$ 6,067,826
Net Assets			
Invested in capital assets - net of related debt	\$ (240,556)	\$ (353,099)	\$ (593,655)
Restricted for debt service	170,883	1,155,461	1,326,344
Unrestricted	(12,135)	811,424	799,289
Total Net Assets	\$ (81,808)	\$ 1,613,786	\$ 1,531,978

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
Operating Revenues			
Charges for services	\$ 188,872	\$ -	\$ 188,872
Patient services revenues	-	2,559,131	2,559,131
Meals	29,668	-	29,668
Laundry	1,399	-	1,399
Miscellaneous	541	47,200	47,741
Total Operating Revenues	\$ 220,480	\$ 2,606,331	\$ 2,826,811
Operating Expenses			
Personal services	\$ 15,894	\$ 457,746	\$ 473,640
Employee benefits and payroll taxes	1,784	-	1,784
Nursing services	-	952,552	952,552
Contracted services	49,387	-	49,387
Administration and fiscal services	-	311,407	311,407
Other care-related	-	78,103	78,103
Supplies	3,503	-	3,503
Ancillary services	-	53,678	53,678
Travel	41	-	41
Telephone	683	-	683
Utilities	25,176	-	25,176
Plant operation	-	167,175	167,175
Advertising	673	-	673
Maintenance and repair	10,968	-	10,968
Insurance	15,552	-	15,552
Licenses and dues	385	-	385
Property and household	-	142,765	142,765
Laundry	-	55,562	55,562
Dietary	-	249,998	249,998
Housekeeping	-	65,008	65,008
Depreciation	47,063	57,485	104,548
Total Operating Expenses	\$ 171,109	\$ 2,591,479	\$ 2,762,588
Operating Income (Loss)	\$ 49,371	\$ 14,852	\$ 64,223
Nonoperating Revenues (Expenses)			
Interest income	\$ -	\$ 1,341	\$ 1,341
Interest on intergovernmental transfer	-	5,945	5,945
Gifts and contributions	-	1,772	1,772
Interest expense	(81,982)	-	(81,982)
Total Nonoperating Revenues (Expenses)	\$ (81,982)	\$ 9,058	\$ (72,924)

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 8
(Continued)

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
Income (Loss) Before Transfers	\$ (32,611)	\$ 23,910	\$ (8,701)
Transfers in	14,616	-	14,616
Change in Net Assets	\$ (17,995)	\$ 23,910	\$ 5,915
Net Assets - January 1	(63,813)	1,589,876	1,526,063
Net Assets - December 31	<u>\$ (81,808)</u>	<u>\$ 1,613,786</u>	<u>\$ 1,531,978</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004
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	\$ 220,480	\$ 2,611,618	\$ 2,832,098
Payments to suppliers and employees	(128,238)	(2,516,119)	(2,644,357)
Interest paid on long-term debt	-	22,833	22,833
Other receipts and payments - net	-	47,200	47,200
Net cash provided by (used in) operating activities	\$ 92,242	\$ 165,532	\$ 257,774
Cash Flows from Noncapital Financing Activities			
Rent deposits	\$ (486)	\$ -	\$ (486)
Contributions	-	1,772	1,772
Transfers in	14,228	-	14,228
Net cash provided by (used in) noncapital financing activities	\$ 13,742	\$ 1,772	\$ 15,514
Cash Flows from Capital and Related Financing Activities			
Principal paid on long-term debt	\$ (30,000)	\$ -	\$ (30,000)
Interest paid on long-term debt	(81,497)	-	(81,497)
Proceeds from issuance of long-term debt	-	400,000	400,000
Purchases of capital assets	-	(2,159,200)	(2,159,200)
Net cash provided by (used in) capital and related financing activities	\$ (111,497)	\$ (1,759,200)	\$ (1,870,697)
Cash Flows from Investing Activities			
(Increase) decrease in noncurrent cash and investments	\$ -	\$ 3,794	\$ 3,794
Interest on intergovernmental transfer	-	5,945	5,945
Investment earnings received	-	1,341	1,341
Net cash provided by (used in) investing activities	\$ -	\$ 11,080	\$ 11,080
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (5,513)	\$ (1,580,816)	\$ (1,586,329)
Cash and Cash Equivalents at January 1	232,430	3,634,669	3,867,099
Cash and Cash Equivalents at December 31	\$ 226,917	\$ 2,053,853	\$ 2,280,770

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004
Increase (Decrease) in Cash and Cash Equivalents**

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
Cash and Cash Equivalents - Exhibit 5			
Cash and pooled investments	\$ 47,530	\$ 898,392	\$ 945,922
Petty cash and change funds	50	-	50
Restricted cash and pooled investments	179,337	1,155,461	1,334,798
Total Cash and Cash Equivalents	\$ 226,917	\$ 2,053,853	\$ 2,280,770
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income	\$ 49,371	\$ 14,852	\$ 64,223
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	\$ 47,063	\$ 57,485	\$ 104,548
(Increase) decrease in accounts receivable	-	52,487	52,487
(Increase) decrease in inventories	531	3,539	4,070
(Increase) decrease in prepaid items	-	1,680	1,680
Increase (decrease) in accounts payable	(4,271)	4,647	376
Increase (decrease) in salaries payable	(548)	-	(548)
Increase (decrease) in due to other funds	27	-	27
Increase (decrease) in due to other governments	69	-	69
Increase (decrease) in accrued expenses	-	30,842	30,842
Total adjustments	\$ 42,871	\$ 150,680	\$ 193,551
Net Cash Provided by (Used in) Operating Activities	\$ 92,242	\$ 165,532	\$ 257,774

FIDUCIARY FUNDS

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2004**

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	\$ 113,184
Due from other funds	<u>7,514</u>
Total Assets	<u>\$ 120,698</u>
<u>Liabilities</u>	
Due to other funds	\$ 1,466
Due to other governments	<u>119,232</u>
Total Liabilities	<u>\$ 120,698</u>

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004**

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. 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.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. The significant changes in the statement include the following:

- a Management's Discussion and Analysis section providing an analysis of the County's overall financial position and results of operations;
- financial statements prepared using full accrual accounting for all of the County's activities, including infrastructure (roads, bridges, etc.); and
- a change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The County has elected to implement all provisions of the statement in the current year.

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.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

The County participates in several joint ventures described in Note 7.C. The County also participates in jointly-governed organizations and a related organization described in Note 7.D. and Note 7.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 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.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

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.

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.

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 is used to account for revenues and expenditures of the County Highway Department, which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

The Social Services Special Revenue Fund is used to account for economic assistance and community social services programs.

The County reports the following major enterprise funds:

The Prairieview Place Fund is used to account for the operations of the County congregate housing.

The Traverse Care Center Fund is used to account for the operations of the County nursing home.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

The government-wide, 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. Property taxes are recognized as revenues in the year for which they are levied. 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.

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 to be available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be 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, then unrestricted resources as they are needed.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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 Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2004, 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 2004 were \$81,978.

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, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the County:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Deposits and Investments (Continued)

- (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 that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

3. Receivables and Payables

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

All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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

All receivables are shown net of an allowance for uncollectibles. At December 31, 2004, the Traverse Care Center had an allowance for doubtful accounts of \$11,000.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due on May 15 and the second half payment due October 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 (FIFO) method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories in proprietary funds and 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, their use is limited by applicable laws and regulations.

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000 and an estimated useful

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

6. Capital Assets (Continued)

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 market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current period, the Traverse Care Center Enterprise Fund capitalized interest in the amount of \$161,417.

Property, plant, and equipment of the County, as well as its component units, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	7 - 20
Public domain infrastructure	50
Furniture, equipment, and vehicles	5 - 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.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans subject to change.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. 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.

12. Third-Party Reimbursement Agreements

Medicaid

The Traverse Care Center participates in the Medicaid program administered by the Minnesota Department of Human Services (DHS).

The State of Minnesota authorized DHS by statutes to establish a contractual alternative system, called “The Nursing Home Contract Project.” The Care Center has contracted with the State of Minnesota to be reimbursed under this system, and thereby has its rates set annually at its previous year’s rates plus inflation.

On October 1, 2002, the State of Minnesota transitioned to a Minimum Data Set (MDS)-based resident assessment system. As a result, Medicaid and private paying residents are classified into one of 34 Resource Utilization Groups (RUG) for purposes of establishing payment rates.

By Minnesota statute, a nursing facility may not charge private paying residents in multiple occupancy rooms per diem rates in excess of the approved Medicaid rates for similar services.

Medicare

By Minnesota statute, a nursing facility which participates in the Medicaid program must also participate in the Medicare program. This program is administered by the Centers for Medicare and Medicaid Services.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

12. Third-Party Reimbursement Agreements

Medicare (Continued)

The Care Center is paid under the Medicare prospective payment system (PPS) for residents who are Medicare eligible. The PPS is a per diem price-based system.

Occupancy Percentages

During the year ended December 31, 2004, the occupancy percentage and the percentages of residents covered by the Medicaid and Medicare programs were as follows:

Total occupancy	98.5%
Medicaid	61.4%
Medicare	6.7%

2. Stewardship, Compliance, and Accountability

Deficit Fund Equity

The following major fund had deficit net assets as of December 31, 2004:

Prairieview Place Enterprise Fund	<u>\$ 81,808</u>
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The deficit net assets in the Prairieview Place Enterprise Fund are expected to be eliminated by future earnings.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

The County's total cash and investments are reported as follows:

Primary government	
Cash and pooled investments	\$ 2,924,501
Investments	101,986
Restricted assets	
Cash and pooled investments	1,334,798
Investments	17,390
Residents' trust fund	9,738
Fiduciary funds	
Cash and pooled investments	
Agency funds	<u>113,184</u>
Total Cash and Investments	<u>\$ 4,501,597</u>

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the County Treasurer. At December 31, 2004, the carrying amount of the County's deposits totaled \$4,069,580. The bank balance deposit amount was \$4,311,608. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral.

Following is a summary of the deposits covered by insurance or collateral at December 31, 2004.

	<u>Bank Balance</u>
Covered Deposits	
Insured, or collateralized with securities held by the County or its agent in the County's name	\$ 351,162
Collateralized with securities held by the pledging financial institution's agent in the County's name	<u>3,960,446</u>
Total covered deposits	\$ 4,311,608
Uncollateralized	<u>-</u>
Total	<u>\$ 4,311,608</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Three levels of custodial credit risk for securities are defined by generally accepted accounting principles:

- (1) securities that are insured or registered, or for which the securities are held by the County or its agent in the County's name;
- (2) securities that are uninsured and unregistered and are held by the counterparty's trust department or agent in the County's name; and
- (3) securities that are uninsured and unregistered and are held by the counterparty, or by its trust department or agent, but not in the County's name.

Following is a summary of the fair values of the County's investments, categorized into the aforementioned levels of risk, at December 31, 2004:

	Category			Fair Value
	1	2	3	
U.S. Treasury strips	\$ 198,724	\$ -	\$ -	\$ 198,724
Federal Home Loan Bank	98,731	-	-	98,731
Federal Home Loan				
Mortgage Corporation	83,266	-	-	83,266
Total Investments	<u>\$ 380,721</u>	<u>\$ -</u>	<u>\$ -</u>	\$ 380,721
Add				
Cash on hand				1,650
Non-interest bearing checking				66,016
Interest bearing checking				1,894,515
Money market savings				1,664,780
Certificates of deposit				458,673
Mutual funds				<u>35,242</u>
Total Cash and Investments				<u>\$ 4,501,597</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2004, for the County's governmental activities and business-type activities, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 40,746	\$ -
Special assessments	4,688	-
Accounts	18,093	-
Interest	4,688	-
Due from other governments	2,905,208	-
Total Governmental Activities	<u>\$ 2,973,423</u>	<u>\$ -</u>
Business-Type Activities		
Accounts receivable	<u>\$ 203,771</u>	<u>\$ -</u>

3. Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 116,299	\$ 88,720	\$ 34,967	\$ 170,052
Right-of-way	230,786	-	-	230,786
Construction in progress	71,773	1,490,653	-	1,562,426
Total capital assets not depreciated	<u>\$ 418,858</u>	<u>\$ 1,579,373</u>	<u>\$ 34,967</u>	<u>\$ 1,963,264</u>
Capital assets depreciated				
Buildings	\$ 2,846,137	\$ 5,200	\$ -	\$ 2,851,337
Land improvements	-	34,967	-	34,967
Machinery, furniture, and equipment	3,285,733	497,759	369,099	3,414,393
Infrastructure	23,756,817	359,967	-	24,116,784
Total capital assets depreciated	<u>\$ 29,888,687</u>	<u>\$ 897,893</u>	<u>\$ 369,099</u>	<u>\$ 30,417,481</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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	\$ 1,153,880	\$ 55,730	\$ -	\$ 1,209,610
Land improvements	7,416	1,748	-	9,164
Machinery, furniture, and equipment	2,043,461	386,224	369,099	2,060,586
Infrastructure	5,142,062	482,335	-	5,624,397
Total accumulated depreciation	\$ 8,346,819	\$ 926,037	\$ 369,099	\$ 8,903,757
Total capital assets depreciated, net	\$ 21,541,868	\$ (28,144)	\$ -	\$ 21,513,724
Governmental Activities Capital Assets, Net	\$ 21,960,726	\$ 1,551,229	\$ 34,967	\$ 23,476,988

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 16,175	\$ -	\$ -	\$ 16,175
Construction in progress	1,223,798	2,099,830	-	3,323,628
Total capital assets not depreciated	\$ 1,239,973	\$ 2,099,830	\$ -	\$ 3,339,803
Capital assets depreciated				
Buildings	\$ 2,643,370	\$ 8,000	\$ -	\$ 2,651,370
Land improvements	46,353	-	2,415	43,938
Machinery, furniture, and equipment	412,542	37,021	-	449,563
Total capital assets depreciated	\$ 3,102,265	\$ 45,021	\$ 2,415	\$ 3,144,871
Less: accumulated depreciation for				
Buildings	\$ 1,154,502	\$ 81,860	\$ -	\$ 1,236,362
Land improvements	32,269	2,871	2,415	32,725
Machinery, furniture, and equipment	328,871	19,907	-	348,778
Total accumulated depreciation	\$ 1,515,642	\$ 104,638	\$ 2,415	\$ 1,617,865
Total capital assets depreciated, net	\$ 1,586,623	\$ (59,617)	\$ -	\$ 1,527,006
Business-Type Activities Capital Assets, Net	\$ 2,826,596	\$ 2,040,213	\$ -	\$ 4,866,809

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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

Governmental Activities	
General government	\$ 47,640
Public safety	20,666
Highways and streets, including depreciation of infrastructure assets	847,076
Social services	6,021
Sanitation	2,507
Culture and recreation	168
Conservation of natural resources	1,959
	<hr/>
Total Depreciation Expense - Governmental Activities	\$ 926,037
	<hr/>
Business-Type Activities	
Traverse Care Center	\$ 57,575
Prairieview Place	47,063
	<hr/>
Total Depreciation Expense - Business-Type Activities	\$ 104,638
	<hr/>

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2004, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Road and Bridge Special Revenue Fund	\$ 682
	Social Services Special Revenue Fund	19,252
	Prairieview Place Enterprise Fund	27
		<hr/>
Total Due to General Fund		\$ 19,961
		<hr/>
Road and Bridge Special Revenue Fund	General Fund	\$ 3,559
	Social Services Special Revenue Fund	98
		<hr/>
Total Due to Road and Bridge Special Revenue Fund		\$ 3,657
		<hr/>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds (Continued)

Receivable Fund	Payable Fund	Amount
Social Services Special Revenue Fund	General Fund	\$ 10
	Agency Fund	1,466
Total Due to Social Services Special Revenue Fund		\$ 1,476
Prairieview Place Enterprise Fund	General Fund	\$ 391
Agency Fund	Social Services Special Revenue Fund	\$ 7,514
Total Due To/From Other Funds		\$ 32,999

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	\$ 56,961

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2004, consisted of the following:

Transfers to Building Special Revenue Fund from General Fund	\$ 63,916	Establish fund
Transfers to Prairieview Place Enterprise Fund from General Fund	14,616	Transfer investment income and provide operating funding
Total Interfund Transfers	\$ 78,532	

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2004, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	\$ 203,699	\$ 40,512
Salaries	3,107	-
Contracts	63,012	336,826
Due to other governments	299,981	510
Interest	5,823	76,622
Residents' trust fund	-	9,738
Rent deposits	-	8,454
	<hr/>	<hr/>
Total Payables	\$ 575,622	\$ 472,662

2. Deferred Revenue

Deferred revenue as of December 31, 2004, year-end for the County is as follows:

	Deferred Unavailable	Deferred Unearned
Taxes and special assessments	\$ 45,434	\$ -
State-aid highway allotments	2,482,021	-
Charges for services	35,071	-
Grants	34,869	-
	<hr/>	<hr/>
Total Deferred	\$ 2,597,395	\$ -

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Construction Commitments

The government has active construction projects as of December 31, 2004. The projects include the following:

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Governmental Activities		
Roads and bridges	\$ 1,260,245	\$ 228,845
Business-Type Activities		
Traverse Care Center	\$ 3,323,628	\$ 376,372

4. Other Postemployment Benefits

Retirees

The County pays the health insurance for qualified retired employees (employees who retired at age 60 with over 15 years of service, or at age 55 with over 22 years of service) from their date of retirement until death. The rates are based on the County's group health policy rates. The County's contributions for the year ended December 31, 2004, were:

	<u>Number of Participants</u>	<u>Contribution</u>
General Fund	18	\$ 72,698
Road and Bridge Special Revenue Fund	13	82,684
Social Services Special Revenue Fund	2	8,639
Traverse Care Center Enterprise Fund	13	54,632
Total		\$ 218,653

Traverse County records the expenditure or expense for retired employees' health insurance benefits in the year paid and does not accrue a liability for future benefits.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Leases

Capital Leases

The County has entered into a lease agreement as lessee for financing the acquisition of the Social Services Building. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. This capital lease consists of the following at December 31, 2004:

<u>Lease</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
Governmental Activities Social Services Building	2014	Semi-Annual	\$ 12,900	\$ 300,000	<u>\$ 213,288</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2004, were as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2005	\$ 25,799
2006	25,799
2007	25,799
2008	25,799
2009	25,799
2010 - 2014	<u>108,568</u>
Total minimum lease payments	\$ 237,563
Less: amount representing interest	<u>(24,275)</u>
Present Value of Minimum Lease Payments	<u><u>\$ 213,288</u></u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Long-Term Debt

Governmental Activities

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rates (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2004</u>
2002 G.O. Capital Equipment Notes	2006	\$180,000 - \$190,000	7.50	<u>\$ 550,000</u>	<u>\$ 370,000</u>

Business-Type Activities

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rates (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2004</u>
USDA Loan	2014	\$44,444	-	\$ 400,000	<u>\$ 400,000</u>
1997 G.O. Governmental Housing Bonds	2026	\$15,000 - \$105,000	6.05	\$ 1,455,000	\$ 1,315,000
Less: unamortized discount					<u>(10,670)</u>
G.O. Bonds Net					<u>\$ 1,304,330</u>
2003 G.O. Nursing Home Revenue Bonds	2033	\$75,000 - \$235,000	3.25 - 5.30	\$ 3,745,000	\$ 3,745,000
Add: unamortized premium					<u>11,134</u>
Total Revenue Bonds Net					<u>\$ 3,756,134</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

7. Debt Service Requirements

Debt service requirements at December 31, 2004, were as follows:

Governmental Activities

Year Ending December 31	Capital Notes	
	Principal	Interest
2005	\$ 180,000	\$ 8,875
2006	190,000	3,087
Total	<u>\$ 370,000</u>	<u>\$ 11,962</u>

Business-Type Activities

Year Ending December 31	General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2005	\$ 30,000	\$ 79,558	\$ -	\$ 183,893
2006	30,000	77,742	75,000	182,674
2007	35,000	75,928	75,000	180,236
2008	35,000	73,810	80,000	177,618
2009	40,000	71,692	80,000	174,818
2010 - 2014	230,000	320,045	450,000	820,618
2015 - 2019	310,000	241,395	550,000	705,706
2020 - 2024	405,000	136,428	685,000	551,515
2025 - 2029	200,000	18,452	875,000	391,280
2030 - 2033	-	-	875,000	54,722
Total	<u>\$ 1,315,000</u>	<u>\$ 1,095,050</u>	<u>\$ 3,745,000</u>	<u>\$ 3,423,080</u>

Year Ending December 31	USDA Loan Principal
2005	\$ 25,926
2006	44,444
2007	44,444
2008	44,444
2009	44,444
2010 - 2014	<u>196,298</u>
Total	<u>\$ 400,000</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

8. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2004, was as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activity					
Long-Term Liabilities					
Bonds payable					
G.O. capital notes	\$ 550,000	\$ -	\$ 180,000	\$ 370,000	\$ 180,000
Capital leases	233,855	-	20,567	213,288	21,053
Compensated absences	179,903	131,262	119,894	191,271	97,227
Governmental Activity					
Long-Term Liabilities	<u>\$ 963,758</u>	<u>\$ 131,262</u>	<u>\$ 320,461</u>	<u>\$ 774,559</u>	<u>\$ 298,280</u>

Business-Type Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-Type Activity					
Long-Term Liabilities					
Bonds payable					
General obligation bonds	\$ 1,345,000	\$ -	\$ 30,000	\$ 1,315,000	\$ 30,000
Revenue bonds	3,745,000	-	-	3,745,000	-
Deferred amounts for issuance premium/discounts	(21)	485	-	464	-
Total bonds payable	\$ 5,089,979	\$ 485	\$ 30,000	\$ 5,060,464	\$ 30,000
Loan payable	-	400,000	-	400,000	25,926
Compensated absences	70,251	60,456	52,995	77,712	77,712
Business-Type Activity					
Long-Term Liabilities	<u>\$ 5,160,230</u>	<u>\$ 460,941</u>	<u>\$ 82,995</u>	<u>\$ 5,538,176</u>	<u>\$ 133,638</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Plan Description

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

Public 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. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund.

The 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 and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for 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 Retirement Fund members whose annuity is calculated using Method 1, and all Public Employees Police and Fire Fund members, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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.

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund and the Public Employees Police and Fire Fund. That report may be obtained on the internet at 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.

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 6.20 percent of their annual covered salary.

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

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53
Public Employees Police and Fire Fund	9.30

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

The County's contributions for the years ending December 31, 2004, 2003, and 2002, for the Public Employees Retirement Fund and the Public Employees Police and Fire Fund were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund
2004	\$ 174,500	\$ 12,664
2003	167,486	12,287
2002	157,706	11,679

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

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 for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. The County self-insures for employee health and dental coverage. 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 the 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. The MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$720,000 per claim in 2004 and \$760,000 per claim in 2005. Should the MCIT Workers' Compensation Division liabilities exceed assets, the MCIT may assess the County in a method and amount to be determined by the MCIT.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

5. Risk Management (Continued)

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

6. Concentration of Credit Risk

The Traverse Care Center grants credit without collateral to its residents, most of whom are local individuals and are insured under third-party payor agreements. The mix of receivables from residents and third-party payors are as follows at December 31, 2004:

Medicare	27%
Medicaid	46%
Resident and Other Third-Party Payors	<u>27%</u>
Total	<u>100%</u>

7. Summary of Significant Contingencies and Other Items

A. Claims and Litigation

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.

B. Residents' Trust Deposits

According to the terms of the admissions agreement, the Traverse Care Center is the trustee of the resident funds. The funds are disbursed at the direction of the resident for personal items. These funds are recorded on the Traverse Care Center's financial statement as restricted assets-residents' trust fund. A corresponding liability is also booked. These funds are made up of a checking and a passbook savings account.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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

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 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 2004 was \$61,638, based on a cost allocation plan developed by Fiscal Officer Karen Folkens.

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

Mid-State Community Health Services

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 Nursing Service receives and administers the grant money.

Complete financial statements for the Mid-State Community Health Services can be obtained from its administrative office at:

Mid-State Community Health Service
621 Pacific Avenue
Morris, Minnesota 56267

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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 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.

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

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 Board 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 upon its share of the annual budget. Traverse County did not contribute any funds to the Joint Powers Board in 2004.

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

Minnesota River Basin Joint Powers
Administration Building No. 19
600 East 4th Street
Chaska, Minnesota 55318

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Area Agency on Aging

The 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.

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 Area Agency on Aging can be obtained from its administrative office at:

Area Agency on Aging
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 nine 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.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Prime West Central County-Based Purchasing Initiative (Continued)

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 2004.

Douglas County acts as fiscal agent for the Prime West Central County-Based Purchasing Initiative and reports the cash transactions as an investment trust fund on its financial statements. Complete financial information can be obtained from its administrative office at:

Prime West Health Systems
Douglas County Courthouse
305 - 8th Avenue West
Alexandria, Minnesota 56308

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.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

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

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations

Traverse County Connections (Continued)

Financing is provided by state and federal grants and contributions from the member parties. Traverse County, in an agency capacity, reports the cash transactions of Traverse County Connections as an agency fund on its financial statements. The County did not contribute any funds in 2004.

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 1997, the HRA issued \$1,455,000 General Obligation Governmental Housing Bonds on behalf of Traverse County, which is responsible for making the payments. The balance of this debt outstanding is \$1,304,330, net of discount.

8. Subsequent Event

Bond Issue

The County issued \$1,190,000 General Obligation Governmental Housing Refunding Bonds, Series 2005A, dated May 3, 2005.

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REQUIRED SUPPLEMENTARY INFORMATION

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 1,388,133	\$ 1,388,133	\$ 1,288,462	\$ (99,671)
Special assessments	50,000	50,000	57,905	7,905
Licenses and permits	2,300	2,300	1,824	(476)
Intergovernmental	409,038	409,038	594,481	185,443
Charges for services	87,050	87,050	107,402	20,352
Fines and forfeits	5,900	5,900	318	(5,582)
Investment earnings	110,000	110,000	83,192	(26,808)
Miscellaneous	107,700	107,700	266,845	159,145
Total Revenues	\$ 2,160,121	\$ 2,160,121	\$ 2,400,429	\$ 240,308
Expenditures				
Current				
General government				
Commissioners	\$ 162,574	\$ 162,574	\$ 161,081	\$ 1,493
Courts	200	200	5,620	(5,420)
Law library	5,000	5,000	10,018	(5,018)
County coordinator	75,435	75,435	67,334	8,101
County auditor	107,454	107,454	115,235	(7,781)
License bureau	35,110	35,110	47,135	(12,025)
County treasurer	100,988	100,988	103,441	(2,453)
County assessor	59,205	59,205	59,314	(109)
Elections	7,000	7,000	15,353	(8,353)
Accounting and auditing	27,000	27,000	33,130	(6,130)
Data processing	51,000	51,000	52,222	(1,222)
Attorney	33,879	33,879	75,825	(41,946)
Recorder	102,360	102,360	127,256	(24,896)
Buildings and plant	85,524	85,524	172,282	(86,758)
Maintenance	-	-	2,207	(2,207)
Veterans service officer	81,065	81,065	79,434	1,631
Unallocated	34,500	34,500	27,580	6,920
Other general government	61,534	61,534	-	61,534
Total general government	\$ 1,029,828	\$ 1,029,828	\$ 1,154,467	\$ (124,639)
Public safety				
Sheriff	\$ 523,090	\$ 523,090	\$ 480,744	\$ 42,346
Boat and water safety	3,000	3,000	1,219	1,781
Coroner	2,000	2,000	639	1,361
Enhanced 911 system	-	-	52,347	(52,347)
Probation and parole	26,728	26,728	203,968	(177,240)
Civil defense	5,492	5,492	4,450	1,042
Total public safety	\$ 560,310	\$ 560,310	\$ 743,367	\$ (183,057)

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Sanitation				
Recycling	\$ 38,199	\$ 38,199	\$ 42,965	\$ (4,766)
Health				
Nursing service	\$ 70,638	\$ 70,638	\$ 68,217	\$ 2,421
Culture and recreation				
County fair	\$ 10,000	\$ 10,000	\$ 13,000	\$ (3,000)
Parks	12,001	12,001	16,957	(4,956)
Senior citizens	-	-	1,531	(1,531)
Regional library	35,032	35,032	35,032	-
Other	450	450	-	450
Total culture and recreation	\$ 57,483	\$ 57,483	\$ 66,520	\$ (9,037)
Conservation of natural resources				
County extension	\$ 96,365	\$ 96,365	\$ 100,831	\$ (4,466)
Soil and water conservation	77,250	77,250	120,329	(43,079)
Weed control	37,655	37,655	41,404	(3,749)
Other	-	-	10,549	(10,549)
Total conservation of natural resources	\$ 211,270	\$ 211,270	\$ 273,113	\$ (61,843)
Economic development				
Community development	\$ 3,000	\$ 3,000	\$ 9,863	\$ (6,863)
Debt service				
Principal retirement	\$ 10,500	\$ 10,500	\$ 20,567	\$ (10,067)
Interest	\$ 25,300	\$ 25,300	\$ 5,232	\$ 20,068
Total Expenditures	\$ 2,006,528	\$ 2,006,528	\$ 2,384,311	\$ (377,783)
Excess of Revenues Over (Under)				
Expenditures	\$ 153,593	\$ 153,593	\$ 16,118	\$ (137,475)
Other Financing Sources (Uses)				
Transfers out	-	-	(78,532)	(78,532)
Net Change in Fund Balance	\$ 153,593	\$ 153,593	\$ (62,414)	\$ (216,007)
Fund Balance - January 1	924,516	924,516	924,516	-
Fund Balance - December 31	\$ 1,078,109	\$ 1,078,109	\$ 862,102	\$ (216,007)

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 341,219	\$ 341,219	\$ 349,704	\$ 8,485
Intergovernmental	2,940,294	2,940,294	3,568,120	627,826
Charges for services	140,000	140,000	177,987	37,987
Miscellaneous	85,000	85,000	16,455	(68,545)
Total Revenues	\$ 3,506,513	\$ 3,506,513	\$ 4,112,266	\$ 605,753
Expenditures				
Current				
Highways and streets				
Administration	\$ 309,228	\$ 309,228	\$ 338,690	\$ (29,462)
Maintenance	749,382	749,382	737,569	11,813
Construction	2,585,272	2,585,272	1,947,665	637,607
Equipment maintenance and shop	562,191	562,191	649,717	(87,526)
Materials and services for resale	16,427	16,427	31,387	(14,960)
Total highways and streets	\$ 4,222,500	\$ 4,222,500	\$ 3,705,028	\$ 517,472
Intergovernmental				
Highways and streets	-	-	173,531	(173,531)
Total Expenditures	\$ 4,222,500	\$ 4,222,500	\$ 3,878,559	\$ 343,941
Excess of Revenues Over (Under) Expenditures	\$ (715,987)	\$ (715,987)	\$ 233,707	\$ 949,694
Fund Balance - January 1	100,203	100,203	100,203	-
Increase (decrease) in reserved for inventories	-	-	740	740
Fund Balance - December 31	\$ (615,784)	\$ (615,784)	\$ 334,650	\$ 950,434

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 454,609	\$ 454,609	\$ 418,549	\$ (36,060)
Intergovernmental	722,571	722,571	878,102	155,531
Charges for services	-	-	11,755	11,755
Miscellaneous	10,000	10,000	91,357	81,357
Total Revenues	\$ 1,187,180	\$ 1,187,180	\$ 1,399,763	\$ 212,583
Expenditures				
Current				
Human Services				
Income maintenance	\$ 274,680	\$ 274,680	\$ 526,623	\$ (251,943)
Social services	912,500	912,500	1,014,792	(102,292)
Total human services	\$ 1,187,180	\$ 1,187,180	\$ 1,541,415	\$ (354,235)
Net Change in Fund Balance	\$ -	\$ -	\$ (141,652)	\$ (141,652)
Fund Balance - January 1	477,650	477,650	477,650	-
Fund Balance - December 31	\$ 477,650	\$ 477,650	\$ 335,998	\$ (141,652)

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004**

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the Building Special Revenue Fund, the Capital Equipment Debt Service Fund, and the Capital Equipment Capital Project Fund. All annual appropriations lapse at fiscal year-end.

On or before mid-June of each year, all departments and agencies submit requests for appropriations to the Traverse County Auditor so that a budget can be prepared. Before October 31, the proposed budget is presented to the County Board for review. The Board holds public hearings, and a final budget must be prepared and adopted no later than December 31.

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. During the year, the Board made no budgetary amendments. Encumbrance accounting is employed in governmental funds.

Encumbrances (such as purchase orders or contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reapportioned and honored during the subsequent year.

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2004, expenditures exceeded appropriations in the General Fund by \$377,783 and in the Social Services Special Revenue Fund by \$354,235. These expenditures in excess of budget were funded by greater than anticipated revenues in the General Fund and in the Social Services Special Revenue Fund.

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SUPPLEMENTARY INFORMATION

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUND

The Building Special Revenue Fund is used to account for financial resources to be used for major repairs and construction of county buildings.

DEBT SERVICE FUND

The Capital Equipment Debt Service Fund is used to account for the accumulation of resources and the payment of principal and interest of general obligation capital notes for the purchase of capital equipment.

CAPITAL PROJECT FUND

The Capital Equipment Capital Project Fund is used to account for the financial resources to be used for the acquisition of capital equipment.

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Statement A-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	Building Special Revenue	Capital Equipment Debt Service	Capital Equipment Capital Project	Total Nonmajor Governmental Funds (EXHIBIT 3)
<u>Assets</u>				
Cash and pooled investments	\$ 127,884	\$ 196,303	\$ 31,534	\$ 355,721
Undistributed cash in agency funds	-	3,932	-	3,932
Taxes receivable				
Prior	-	2,389	-	2,389
Total Assets	<u>\$ 127,884</u>	<u>\$ 202,624</u>	<u>\$ 31,534</u>	<u>\$ 362,042</u>
<u>Liabilities and Fund Balances</u>				
Liabilities				
Deferred revenue - unavailable	\$ -	\$ 2,389	\$ -	\$ 2,389
Fund Balances				
Unreserved				
Designated for debt service	\$ -	\$ 200,235	\$ -	\$ 200,235
Designated for capital equipment	-	-	31,534	31,534
Undesignated	127,884	-	-	127,884
Total Fund Balances	<u>\$ 127,884</u>	<u>\$ 200,235</u>	<u>\$ 31,534</u>	<u>\$ 359,653</u>
Total Liabilities and Fund Balances	<u>\$ 127,884</u>	<u>\$ 202,624</u>	<u>\$ 31,534</u>	<u>\$ 362,042</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Statement A-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Building Special Revenue	Capital Equipment Debt Service	Capital Equipment Capital Project	Total Nonmajor Governmental Funds (EXHIBIT 5)
Revenues				
Taxes	\$ -	\$ 168,246	\$ -	\$ 168,246
Intergovernmental	-	48,338	-	48,338
Miscellaneous	63,968	-	-	63,968
Total Revenues	\$ 63,968	\$ 216,584	\$ -	\$ 280,552
Expenditures				
Current				
Public safety	\$ -	\$ -	\$ 22,468	\$ 22,468
Highways and streets	-	-	154,475	154,475
Debt service				
Principal retirement	-	180,000	-	180,000
Interest	-	14,649	-	14,649
Total Expenditures	\$ -	\$ 194,649	\$ 176,943	\$ 371,592
Excess of Revenues Over (Under) Expenditures	\$ 63,968	\$ 21,935	\$ (176,943)	\$ (91,040)
Other Financing Sources (Uses)				
Transfers in	63,916	-	-	63,916
Net Change in Fund Balance	\$ 127,884	\$ 21,935	\$ (176,943)	\$ (27,124)
Fund Balance - January 1	-	178,300	208,477	386,777
Fund Balance - December 31	\$ 127,884	\$ 200,235	\$ 31,534	\$ 359,653

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

AGENCY FUNDS

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

Statement B-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Balance January 1	Additions	Deductions	Balance December 31
<u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 664,546	\$ 664,546	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 664,546	\$ 664,546	\$ -
<u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 4,769	\$ 492,270	\$ 488,578	\$ 8,461
Due from other governments	193	-	193	-
Total Assets	\$ 4,962	\$ 492,270	\$ 488,771	\$ 8,461
<u>Liabilities</u>				
Due to other governments	\$ 4,962	\$ 492,270	\$ 488,771	\$ 8,461
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 43,088	\$ 2,385,861	\$ 2,350,005	\$ 78,944
<u>Liabilities</u>				
Due to other governments	\$ 43,088	\$ 2,385,861	\$ 2,350,005	\$ 78,944

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

***Statement B-1
(Continued)***

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 1,486,214	\$ 1,486,214	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 1,486,214	\$ 1,486,214	\$ -
<u>TRAVERSE COUNTY CONNECTIONS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 7,464	\$ 45,671	\$ 50,269	\$ 2,866
Due from other funds	-	7,514	-	7,514
Total Assets	\$ 7,464	\$ 53,185	\$ 50,269	\$ 10,380
<u>Liabilities</u>				
Accounts payable	\$ 375	\$ -	\$ 375	\$ -
Due to other funds	-	1,466	-	1,466
Due to other governments	7,089	51,719	49,894	8,914
Total Liabilities	\$ 7,464	\$ 53,185	\$ 50,269	\$ 10,380
<u>COMMUNITIES UNITED IN PARTNERSHIP</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 34,410	\$ -	\$ 11,497	\$ 22,913
<u>Liabilities</u>				
Accounts payable	\$ 34	\$ -	\$ 34	\$ -
Due to other governments	34,376	-	11,463	22,913
Total Liabilities	\$ 34,410	\$ -	\$ 11,497	\$ 22,913

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Statement B-1
(Continued)

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 89,731	\$ 5,074,562	\$ 5,051,109	\$ 113,184
Due from other funds	-	7,514	-	7,514
Due from other governments	193	-	193	-
Total Assets	<u>\$ 89,924</u>	<u>\$ 5,082,076</u>	<u>\$ 5,051,302</u>	<u>\$ 120,698</u>
<u>Liabilities</u>				
Accounts payable	\$ 409	\$ -	\$ 409	\$ -
Due to other funds	-	1,466	-	1,466
Due to other governments	89,515	5,080,610	5,050,893	119,232
Total Liabilities	<u>\$ 89,924</u>	<u>\$ 5,082,076</u>	<u>\$ 5,051,302</u>	<u>\$ 120,698</u>

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OTHER SCHEDULES

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Schedule 4

**SCHEDULE OF DEPOSITS AND INVESTMENTS
DECEMBER 31, 2004**

	Interest Rate (%)	Maturity Date	Fair Value
Cash and Pooled Investments			
Cash on hand	-	-	\$ 1,650
Non-interest bearing checking (two)	-	Continuous	66,016
Interest-bearing checking	1.17	Continuous	1,881,379
Money market savings (three)	.75 to 2.86	Continuous	1,652,957
Certificates of deposit (three)	1.50 to 1.95	March 5, 2005 December 1, 2005	342,695
Mutual funds (two)	Various	Continuous	35,242
U.S. Treasury strip	-	November 15, 2008	198,724
Federal Home Loan Mortgage Corporation	4.00	March 9, 2019	83,266
Federal Home Loan Bank	3.00	July 24, 2013	98,731
Broker-held money markets (two)	1.11 to 1.25	Continuous	11,823
Total Cash and Pooled Investments			<u>\$ 4,372,483</u>
Investments from Funds			
General Fund			
Certificate of deposit	2.25	July 2, 2005	<u>\$ 66,694</u>
Traverse Care Center Enterprise Fund			
Interest-bearing checking (two)	.10 to .60	Continuous	\$ 13,136
Certificates of deposit (three)	1.50 to 2.25	July 2, 2005 December 31, 2005	49,284
Total Traverse Care Center Enterprise Fund			<u>\$ 62,420</u>
Total Investments from Funds			<u>\$ 129,114</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Schedule 5

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Governmental Funds
Shared Revenue	
State	
Highway users tax	\$ 3,445,952
Program aid	444,162
Market value credit	173,720
Mobile home MVC	648
PERA rate reimbursement	16,482
Disparity reduction aid	18,776
Police aid	12,287
Total shared revenue	\$ 4,112,027
Reimbursement for Services	
State	
Minnesota Department of Human Services	\$ 401,831
Payments	
Local	
Payments in lieu of taxes	\$ 10,306
Grants	
State	
Minnesota Department/Board of	
Corrections	\$ 12,894
Public Safety	32,873
Human Services	246,932
Soil and Water Resources	64,910
Peace Officers Standards and Training	1,432
Office of Environmental Assistance	49,099
Total State	\$ 408,140
Federal	
Department of	
Agriculture	\$ 2,157
Transportation	13,387
Homeland Security	14,029
Health and Human Services	127,164
Total Federal	\$ 156,737
Total State and Federal Grants	\$ 564,877
Total Intergovernmental Revenue	\$ 5,089,041

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Schedule 6

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-3 Segregation of Duties

Due to the limited number of personnel within Traverse County, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. In addition, the County's computer systems are operating below the recommended security levels for adequate segregation of duties within the data processing function. 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 internal control point of view.

We recommend that the County's management be aware of the lack of segregation of the accounting functions and, if possible, implement oversight procedures to ensure that internal control policies and procedures are being followed by staff.

Client's Response:

Traverse County is aware of the lack of segregation of the accounting functions. County management will explore oversight procedures to ensure that internal control policies and procedures are being implemented by staff.

ITEM ARISING THIS YEAR

04-1 Payroll Procedures

The County has procedures in place for supervisors to review and approve the time and leave records of each employee within their department; however, no system is in place for reviewing and approving time and leave records of supervisors. In addition, each department has its own format of time records, and in several departments these do not include an affidavit to be signed by the employee that the time reported is true and correct.

Without a review process of supervisors' time and leave records, incorrect time or leave balances may be reported without being detected. Internal control over payroll would be improved by having supervisors submit their time and leave records to someone independent for review and approval prior to processing payroll. Internal control over payroll would further be improved by adding an affidavit to be signed by all employees, including supervisors, that the time and leave reported is true and correct.

We recommend the County implement a system for reviewing and approving the time and leave records of supervisors similar to the system in place for their employees. In addition, we recommend all employees, including supervisors, sign an affidavit that the claim is true and correct.

Client's Response:

The County will implement a Payroll Reporting Policy for all staff which will include reviewing and approving the time and leave records of supervisors. As part of the policy, all employees will be required to use a specific payroll reporting form with a signed certification stating all of the hours reported are true and correct.

II. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

04-2 Depository Pledge Agreement

The depository pledge agreement with Community First National Bank provides that if the aggregate market value of collateral held by the custodian (Wells Fargo Bank Minnesota, National Association) exceeds the required collateral value (Minn. Stat. § 118A.03, subd. 3), Community First National Bank may withdraw any excess collateral by providing the custodian with a withdrawal notice signed by authorized representatives of Community First National Bank and the County. Additionally, Community First National Bank may substitute eligible securities for any of the collateral held by the custodian at any time by providing the custodian with a substitution notice signed only by an authorized representative of Community First National Bank, provided that the market value of the collateral following such substitution would equal or exceed the required collateral value. Substitutions of securities not of like par value do require the County Auditor/Treasurer's written confirmation.

When additional collateral is pledged, Community First National Bank does not provide documentation that the Board of Directors or Loan Committee has approved the pledging of those particular securities. The County Auditor/Treasurer receives only collateral pledge reports from Wells Fargo verifying the balance of collateral.

The depository pledge agreement also provides the bank at least three business days and an opportunity to cure the default before the custodian can release the collateral in the event of a default.

Minn. Stat. § 118A.03, subd. 4, provides any collateral pledged shall be accompanied by a written assignment that states, upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged. Minn. Stat. § 118A.03, subd. 5, allows the financial institution to withdraw excess collateral or substitute other collateral after giving written notice to the governmental entity and receiving confirmation. The authority to return any delivered and assigned collateral rests with the governmental entity.

We recommend that the County Auditor/Treasurer obtain documentation from Community First National Bank that shows compliance with Minn. Stat. § 118A.03, subd. 4 and subd. 5.

Client's Response:

The Traverse County Treasurer has discussed this matter with Bank of the West (formerly Community First National Bank). Bank of the West has contacted Wells Fargo to update the depository pledge agreement for compliance with Minn. Stat. § 118A.03, subd. 4 and subd. 5.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

97-5 Prairieview Place Net Assets

The Prairieview Place Enterprise Fund had a net asset deficit of \$81,808 at December 31, 2004. Prairieview Place had a net operating income of \$49,371. The deficit financial condition resulted from the costs of borrowing to finance the construction of the congregate housing project.

Whenever an asset is constructed and financed from debt, it is common to have deficit net assets during the early years of operation. The net asset deficit increased in 2004 due to a net loss of \$17,995, resulting from interest expense, offset with an operating transfer from the General Fund of \$14,616.

We recommend that the County Board monitor the operations of the Prairieview Place Enterprise Fund to determine that the income is sufficient for management control and maintenance of this facility.

Client's Response:

Traverse County will monitor the operations of the Prairieview Place Enterprise Fund to determine that the income is sufficient for management control and maintenance of this facility.

02-12

Consolidated General Ledger

Currently, a separate general ledger is maintained by the Road and Bridge Department. The detailed financial transactions recorded in the Road and Bridge general ledger are interfaced with the County's main general ledger, maintained by the County Auditor, as "batched" totals. In 2003, the County combined the Social Services Department's general ledger with the County's main general ledger. In 2005, the Care Center and Prairieview Place general ledgers were also consolidated with the County.

Accounting and reporting controls are more efficient and effective when all transactions are accounted for in one centralized general ledger. The County Board and management are better able to implement and maintain internal control over one central computerized system than several decentralized systems. Security access controls to a centralized general ledger could be established so that departments and employees would have the same responsibility and authority for entering detailed transactions as is currently done with separate departmental general ledgers. Managers and employees should have access to assets or records based only on the specific needs commensurate with their positions. A centralized general ledger generally provides more uniformity and consistency in accounting for financial transactions. In addition, it allows senior management to have independent access to financial information for the entire County as needed to manage and monitor its financial operations.

We strongly recommend that the County Board provide the necessary directives that would allow for the recording of all detailed financial transactions in a consolidated general ledger.

Client's Response:

The Traverse County Board will provide the necessary directives to department managers that would allow for the recording of all detailed financial transactions in a consolidated general ledger.

PREVIOUSLY REPORTED ITEMS RESOLVED

Budget Documentation (02-10)

Although the County Board adopts a formal budget, the documentation in the Board minutes is limited to the levy amounts approved for each fund. We could not reconcile the detail of revenues and expenditures to an approved budget.

Resolution

The Board minutes approving the 2005 budget include revenues, expenditures, and levy amounts.

Capital Asset Accounting System (02-13)

To comply with GASB Statement 34, the County must establish accounting policies for capital assets and evaluate its capital asset accounting system to determine if it is capable of providing the information needed to comply with the reporting requirements of GASB Statement 34.

Resolution

The County established the capital asset policies necessary for the implementation of GASB Statement 34. The capital asset accounting system does provide the information needed for GASB Statement 34 reporting.

C. **OTHER ITEM FOR CONSIDERATION**

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits*

Other Than Pensions, which governs employer accounting and financial reporting for OPEB. These standards, like what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statements, accounting for OPEB is now similar to the accounting used by governments for pension plans.

Some of the issues that the County Board will need to address in order to comply with the statements are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, the County Board will have to examine its options under state law to determine whether the establishment of a trust is authorized and desirable in order to fund the OPEB; and
- in order to determine annual costs and liabilities that need to be recognized, the County Board will have to decide whether to hire an actuary.

If applicable for Traverse County, GASB Statements 43 and 45 would be implemented for the years ending December 31, 2008. and 2009, respectively



STATE OF MINNESOTA

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PATRICIA ANDERSON
STATE AUDITOR

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, 2004, and have issued our report thereon dated January 17, 2006. We did not audit the Traverse Care Center Enterprise Fund, which was audited by other auditors. 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. A separate report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with *Government Auditing Standards* issued by other auditors for the Traverse Care Center is available.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Traverse County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Recommendations as items 96-3 and 04-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the

financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions indicated above are not material weaknesses.

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 Local Government*, 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 Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, Traverse County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as item 04-2.

This report is intended solely for the information and use of the Board of County Commissioners and management and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: January 17, 2006