

# **STATE OF MINNESOTA**

## **Office of the State Auditor**



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

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

**YEAR ENDED DECEMBER 31, 2005**

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

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

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

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

**Pension** - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

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

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

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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**Year Ended December 31, 2005**



**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, 2005

			<u>Term Expires</u>
<b>Elected</b>			
Commissioners			
Board Member	Gerald Kaus	District 1	January 2007
Board Member	William Gibson	District 2	January 2009
Chair	David Naatz	District 3	January 2007
Board Member	Clarence J. Zimmer	District 4	January 2009
Vice Chair	Norma Holtz	District 5	January 2009
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
<b>Appointed</b>			
County Coordinator	Janet Raguse		Indefinite
Assessor	Lois Sumerfelt		January 2009
County Engineer	Larry Haukos		May 2008
Coroner	Dr. Jay Schmidt		January 2006
Examiner of Titles	Lowell Nelson		Indefinite
Nursing Home Administrator	Chere Rikimoto		Indefinite
Social Services Director	Christian Boe*		Indefinite
Veterans Service Officer	Gary Tracy		October 2009

\*Ronda Antrim was appointed as Social Services Director effective May 1, 2006.

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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### INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Traverse County

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Traverse County, Minnesota, as of and for the year ended December 31, 2005, 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 opinions on these financial statements based on our audit. We did not audit the financial statements of the Traverse Care Center Enterprise Fund, which is both a major fund and 83 percent, 109 percent, and 92 percent, respectively, of the assets, net assets, and revenues of the business-type activities. 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, 2005,

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.

The required supplementary information listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB). 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. Traverse County has not presented a Management's Discussion and Analysis that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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 listed in the table of contents is presented for purposes of additional analysis and is 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 November 15, 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/Rebecca Otto

REBECCA OTTO  
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: November 15, 2006

## **BASIC FINANCIAL STATEMENTS**

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## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2005**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 1,716,513	\$ 559,632	\$ 2,276,145
Investments	66,694	35,404	102,098
Taxes receivable			
Current - net	32,822	-	32,822
Prior - net	15,854	-	15,854
Special assessments receivable			
Current - net	2,610	-	2,610
Prior - net	2,426	-	2,426
Accounts receivable - net	41,197	422,900	464,097
Accrued interest receivable	7,311	-	7,311
Internal balances	31	(31)	-
Due from other governments	2,346,510	-	2,346,510
Prepaid items	10,957	10,331	21,288
Inventories	33,956	11,754	45,710
Restricted assets			
Cash and pooled investments - temporarily restricted	-	237,505	237,505
Investments	-	17,878	17,878
Residents' trust fund	-	6,182	6,182
Deferred charges	-	117,246	117,246
Capital assets			
Non-depreciable	3,993,869	16,175	4,010,044
Depreciable - net of accumulated depreciation	21,102,267	5,226,302	26,328,569
<b>Total Assets</b>	<b>\$ 29,373,017</b>	<b>\$ 6,661,278</b>	<b>\$ 36,034,295</b>
<b><u>Liabilities</u></b>			
Accounts payable	\$ 132,127	\$ 51,924	\$ 184,051
Salaries payable	32,955	18,336	51,291
Accrued payroll taxes	-	2,415	2,415
Contracts payable	251,351	-	251,351
Due to other governments	238,932	720	239,652
Accrued interest payable	3,484	-	3,484
Payable from restricted assets			
Interest payable	-	76,622	76,622
Residents' trust fund	-	6,182	6,182
Rent deposits	-	8,894	8,894
Long-term liabilities			
Due within one year	316,084	252,556	568,640
Due in more than one year	273,070	5,114,768	5,387,838
<b>Total Liabilities</b>	<b>\$ 1,248,003</b>	<b>\$ 5,532,417</b>	<b>\$ 6,780,420</b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

***EXHIBIT 1  
(Continued)***

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2005**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b><u>Net Assets</u></b>			
Invested in capital assets - net of related debt	\$ 24,713,901	\$ 2,179	\$ 24,716,080
Restricted for			
General government	10,957	-	10,957
Public safety	10,906	-	10,906
Highways and streets	1,199,482	-	1,199,482
Sanitation	226,649	-	226,649
Debt service	-	228,611	228,611
Unrestricted	<u>1,963,119</u>	<u>898,071</u>	<u>2,861,190</u>
<b>Total Net Assets</b>	<b><u>\$ 28,125,014</u></b>	<b><u>\$ 1,128,861</u></b>	<b><u>\$ 29,253,875</u></b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2005**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>
<b>Primary Government</b>		
<b>Governmental activities</b>		
General government	\$ 1,144,583	\$ 122,611
Public safety	817,173	199,172
Highways and streets	2,974,400	285,364
Sanitation	85,683	-
Human services	1,531,095	88,654
Health	69,406	-
Culture and recreation	43,532	5,623
Conservation of natural resources	296,973	10,899
Economic development	418	-
Interest	11,657	-
<b>Total governmental activities</b>	<b>\$ 6,974,920</b>	<b>\$ 712,323</b>
<b>Business-type activities</b>		
Traverse Care Center	\$ 3,049,152	\$ 2,656,185
Prairieview Place	247,909	225,247
<b>Total business-type activities</b>	<b>\$ 3,297,061</b>	<b>\$ 2,881,432</b>
<b>Total Primary Government</b>	<b>\$ 10,271,981</b>	<b>\$ 3,593,755</b>

**General Revenues**

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

**Transfers**

**Total general revenues and transfers**

**Change in net assets**

**Net Assets - Beginning, as restated in Note 1.E.**

**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
\$ 22,373	\$ -	\$ (999,599)	\$ -	\$ (999,599)
138,848	-	(479,153)	-	(479,153)
2,301,314	173,339	(214,383)	-	(214,383)
49,427	-	(36,256)	-	(36,256)
848,627	-	(593,814)	-	(593,814)
-	-	(69,406)	-	(69,406)
20,520	-	(17,389)	-	(17,389)
59,720	-	(226,354)	-	(226,354)
-	-	(418)	-	(418)
-	-	(11,657)	-	(11,657)
<b>\$ 3,440,829</b>	<b>\$ 173,339</b>	<b>\$ (2,648,429)</b>	<b>\$ -</b>	<b>\$ (2,648,429)</b>
\$ 615	\$ -	\$ -	\$ (392,352)	\$ (392,352)
-	-	-	(22,662)	(22,662)
<b>\$ 615</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (415,014)</b>	<b>\$ (415,014)</b>
<b>\$ 3,441,444</b>	<b>\$ 173,339</b>	<b>\$ (2,648,429)</b>	<b>\$ (415,014)</b>	<b>\$ (3,063,443)</b>
		\$ 2,775,555	\$ -	\$ 2,775,555
		613,155	-	613,155
		10,147	-	10,147
		49,664	5,576	55,240
		99,643	-	99,643
		(6,321)	6,321	-
		<b>\$ 3,541,843</b>	<b>\$ 11,897</b>	<b>\$ 3,553,740</b>
		<b>\$ 893,414</b>	<b>\$ (403,117)</b>	<b>\$ 490,297</b>
		<b>27,231,600</b>	<b>1,531,978</b>	<b>28,763,578</b>
		<b>\$ 28,125,014</b>	<b>\$ 1,128,861</b>	<b>\$ 29,253,875</b>

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## **FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**EXHIBIT 3**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2005**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>Assets</u></b>					
Cash and pooled investments	\$ 832,055	\$ 38,051	\$ 365,438	\$ 432,519	\$ 1,668,063
Petty cash and change funds	1,400	-	100	-	1,500
Undistributed cash in agency funds	28,261	8,315	7,587	2,787	46,950
Investments	66,694	-	-	-	66,694
Taxes receivable					
Current	18,520	6,371	5,799	2,132	32,822
Prior	8,608	3,046	3,271	929	15,854
Special assessments receivable					
Current	2,610	-	-	-	2,610
Prior	2,426	-	-	-	2,426
Accounts receivable	10,745	23,370	7,082	-	41,197
Accrued interest receivable	7,311	-	-	-	7,311
Due from other funds	30,975	3,775	-	-	34,750
Due from other governments	155,676	2,096,069	94,765	-	2,346,510
Inventories	-	33,956	-	-	33,956
Prepaid items	4,208	6,749	-	-	10,957
<b>Total Assets</b>	<b><u>\$ 1,169,489</u></b>	<b><u>\$ 2,219,702</u></b>	<b><u>\$ 484,042</u></b>	<b><u>\$ 438,367</u></b>	<b><u>\$ 4,311,600</u></b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**EXHIBIT 3  
(Continued)**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2005**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>Liabilities and Fund Balances</u></b>					
<b>Liabilities</b>					
Accounts payable	\$ 31,258	\$ 64,174	\$ 28,747	\$ 7,948	\$ 132,127
Salaries payable	364	32,591	-	-	32,955
Contracts payable	-	251,351	-	-	251,351
Due to other funds	3,408	784	30,527	-	34,719
Due to other governments	57,906	153,339	27,687	-	238,932
Deferred revenue - unavailable	33,473	1,910,617	26,969	3,061	1,974,120
<b>Total Liabilities</b>	<b>\$ 126,409</b>	<b>\$ 2,412,856</b>	<b>\$ 113,930</b>	<b>\$ 11,009</b>	<b>\$ 2,664,204</b>
<b>Fund Balances</b>					
Reserved for					
Boat and water safety	\$ 10,906	\$ -	\$ -	\$ -	\$ 10,906
Encumbrances	-	600,198	-	-	600,198
Future plant expansion	226,649	-	-	-	226,649
Inventories	-	33,956	-	-	33,956
Missing heirs	28,922	-	-	-	28,922
Prepaid items	4,208	6,749	-	-	10,957
Unreserved, undesignated	772,395	(834,057)	370,112	-	308,450
Unreserved, reported in nonmajor					
Special revenue fund	-	-	-	182,254	182,254
Debt service fund	-	-	-	213,570	213,570
Capital projects fund	-	-	-	31,534	31,534
<b>Total Fund Balances</b>	<b>\$ 1,043,080</b>	<b>\$ (193,154)</b>	<b>\$ 370,112</b>	<b>\$ 427,358</b>	<b>\$ 1,647,396</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,169,489</b>	<b>\$ 2,219,702</b>	<b>\$ 484,042</b>	<b>\$ 438,367</b>	<b>\$ 4,311,600</b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

***EXHIBIT 4***

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2005**

<b>Fund balances - total governmental funds (Exhibit 3)</b>	<b>\$</b>	<b>1,647,396</b>
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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.		25,096,136
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Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		1,974,120
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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	\$	(190,000)	
Capital leases		(192,235)	
Compensated absences		(206,919)	
Accrued interest payable		(3,484)	
		<u>          </u>	<u>(592,638)</u>

<b>Net assets of governmental activities (Exhibit 1)</b>	<b>\$</b>	<b><u>28,125,014</u></b>
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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**EXHIBIT 5**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>					
Taxes	\$ 1,569,135	\$ 533,499	\$ 486,302	\$ 178,689	\$ 2,767,625
Special assessments	56,263	-	-	-	56,263
Licenses and permits	2,649	-	-	-	2,649
Intergovernmental	592,519	3,359,851	963,497	38,792	4,954,659
Charges for services	128,782	139,890	6,898	-	275,570
Interest on investments	49,664	-	-	-	49,664
Miscellaneous	257,406	3,227	81,756	49,111	391,500
<b>Total Revenues</b>	<b>\$ 2,656,418</b>	<b>\$ 4,036,467</b>	<b>\$ 1,538,453</b>	<b>\$ 266,592</b>	<b>\$ 8,497,930</b>
<b>Expenditures</b>					
<b>Current</b>					
General government	\$ 1,113,828	\$ -	\$ -	\$ 9,637	\$ 1,123,465
Public safety	836,206	-	-	-	836,206
Highways and streets	-	4,400,419	-	-	4,400,419
Sanitation	82,569	-	-	-	82,569
Human services	-	-	1,549,535	-	1,549,535
Health	69,406	-	-	-	69,406
Culture and recreation	46,364	-	-	-	46,364
Conservation of natural resources	294,529	-	-	-	294,529
Economic development	418	-	-	-	418
<b>Intergovernmental</b>	-	167,557	-	-	167,557
<b>Debt service</b>					
Principal	21,053	-	-	180,000	201,053
Interest	4,746	-	-	9,250	13,996
<b>Total Expenditures</b>	<b>\$ 2,469,119</b>	<b>\$ 4,567,976</b>	<b>\$ 1,549,535</b>	<b>\$ 198,887</b>	<b>\$ 8,785,517</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 187,299</b>	<b>\$ (531,509)</b>	<b>\$ (11,082)</b>	<b>\$ 67,705</b>	<b>\$ (287,587)</b>
<b>Other Financing Sources (Uses)</b>					
Transfers out	(6,321)	-	-	-	(6,321)
<b>Net Change in Fund Balances</b>	<b>\$ 180,978</b>	<b>\$ (531,509)</b>	<b>\$ (11,082)</b>	<b>\$ 67,705</b>	<b>\$ (293,908)</b>
Fund Balances - January 1	\$ 862,102	\$ 334,650	\$ 335,998	\$ 359,653	\$ 1,892,403
Prior period adjustment	-	-	45,196	-	45,196
<b>Fund Balances - January 1, as restated</b>	<b>\$ 862,102</b>	<b>\$ 334,650</b>	<b>\$ 381,194</b>	<b>\$ 359,653</b>	<b>\$ 1,937,599</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>\$ -</b>	<b>\$ 3,705</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,705</b>
<b>Fund Balances - December 31</b>	<b>\$ 1,043,080</b>	<b>\$ (193,154)</b>	<b>\$ 370,112</b>	<b>\$ 427,358</b>	<b>\$ 1,647,396</b>

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

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**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, 2005**

**Net change in fund balances - total governmental funds (Exhibit 5) \$ (293,908)**

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	\$ 1,974,120	
Deferred revenue - January 1	<u>(2,597,395)</u>	(623,275)

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	\$ 2,398,458	
Current year depreciation	<u>(779,310)</u>	1,619,148

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	\$ 21,053	
Capital notes	<u>180,000</u>	201,053

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in accrued interest payable	\$ 2,339	
Change in compensated absences	(15,648)	
Change in inventories	<u>3,705</u>	<u>(9,604)</u>

**Change in net assets of governmental activities (Exhibit 2) \$ 893,414**

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## **PROPRIETARY FUNDS**

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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**EXHIBIT 7**

**STATEMENT OF FUND NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2005**

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Prairieview Place</b>	<b>Traverse Care Center</b>	<b>Totals</b>
<b><u>Assets</u></b>			
<b>Current assets</b>			
Cash and pooled investments	\$ 52,677	\$ 506,905	\$ 559,582
Petty cash and change funds	50	-	50
Investments	-	35,404	35,404
Accounts receivable - net	-	422,900	422,900
Inventories	782	10,972	11,754
Prepaid items	-	10,331	10,331
<b>Total current assets</b>	<b>\$ 53,509</b>	<b>\$ 986,512</b>	<b>\$ 1,040,021</b>
<b>Restricted assets</b>			
Cash and pooled investments	\$ 8,894	\$ 228,611	\$ 237,505
Investments	-	17,878	17,878
Residents' trust fund	-	6,182	6,182
<b>Total restricted assets</b>	<b>\$ 8,894</b>	<b>\$ 252,671</b>	<b>\$ 261,565</b>
<b>Noncurrent assets</b>			
Advance to other funds	\$ -	\$ 56,961	\$ 56,961
Deferred debt issuance costs	23,914	93,332	117,246
Capital assets			
Nondepreciable	-	16,175	16,175
Depreciable - net	1,023,186	4,203,116	5,226,302
<b>Total noncurrent assets</b>	<b>\$ 1,047,100</b>	<b>\$ 4,369,584</b>	<b>\$ 5,416,684</b>
<b>Total Assets</b>	<b>\$ 1,109,503</b>	<b>\$ 5,608,767</b>	<b>\$ 6,718,270</b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**EXHIBIT 7  
(Continued)**

**STATEMENT OF FUND NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2005**

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Prairieview Place</b>	<b>Traverse Care Center</b>	<b>Totals</b>
<b><u>Liabilities</u></b>			
<b>Current liabilities</b>			
Accounts payable	\$ 6,143	\$ 45,781	\$ 51,924
Salaries payable	-	18,336	18,336
Accrued payroll taxes	-	2,415	2,415
Compensated absences payable - current	665	102,447	103,112
Due to other funds	31	-	31
Due to other governments	720	-	720
General obligation bonds payable - current	30,000	-	30,000
Revenue bonds payable - current	-	75,000	75,000
<b>Total current liabilities</b>	<b>\$ 37,559</b>	<b>\$ 243,979</b>	<b>\$ 281,538</b>
<b>Current liabilities payable from restricted assets</b>			
Interest payable	\$ -	\$ 76,622	\$ 76,622
Residents' trust fund	-	6,182	6,182
Rent deposits	8,894	-	8,894
Loans payable - current	-	44,444	44,444
<b>Total current liabilities payable from restricted assets</b>	<b>\$ 8,894</b>	<b>\$ 127,248</b>	<b>\$ 136,142</b>
<b>Noncurrent liabilities</b>			
Advance from other funds	\$ 56,961	\$ -	\$ 56,961
Loans payable - long term	-	329,630	329,630
General obligation bonds payable - long-term	1,104,238	-	1,104,238
Revenue bonds payable - long-term	-	3,680,900	3,680,900
<b>Total noncurrent liabilities</b>	<b>\$ 1,161,199</b>	<b>\$ 4,010,530</b>	<b>\$ 5,171,729</b>
<b>Total Liabilities</b>	<b>\$ 1,207,652</b>	<b>\$ 4,381,757</b>	<b>\$ 5,589,409</b>
<b><u>Net Assets</u></b>			
Invested in capital assets - net of related debt	\$ (87,138)	\$ 89,317	\$ 2,179
Restricted for debt service	-	228,611	228,611
Unrestricted	(11,011)	909,082	898,071
<b>Total Net Assets</b>	<b>\$ (98,149)</b>	<b>\$ 1,227,010</b>	<b>\$ 1,128,861</b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**EXHIBIT 8**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Prairieview Place</b>	<b>Traverse Care Center</b>	<b>Totals</b>
<b>Operating Revenues</b>			
Charges for services	\$ 198,588	\$ -	\$ 198,588
Patient services revenues	-	2,592,425	2,592,425
Meals	24,607	-	24,607
Laundry	1,513	-	1,513
Miscellaneous	539	63,760	64,299
<b>Total Operating Revenues</b>	<b>\$ 225,247</b>	<b>\$ 2,656,185</b>	<b>\$ 2,881,432</b>
<b>Operating Expenses</b>			
Personal services	\$ 23,869	\$ 474,544	\$ 498,413
Employee benefits and payroll taxes	4,573	-	4,573
Nursing services	-	965,559	965,559
Contracted services	43,530	-	43,530
Administration and fiscal services	-	347,199	347,199
Other care-related	-	81,117	81,117
Supplies	2,012	-	2,012
Ancillary services	-	63,837	63,837
Telephone	662	-	662
Utilities	31,747	-	31,747
Plant operation	-	220,108	220,108
Advertising	782	-	782
Maintenance and repair	4,064	-	4,064
Insurance	13,883	-	13,883
Licenses and dues	582	-	582
Property and household	-	142,765	142,765
Laundry	-	55,344	55,344
Dietary	-	262,980	262,980
Housekeeping	-	69,674	69,674
Interest	-	107,271	107,271
Miscellaneous	3,755	-	3,755
Depreciation	46,038	158,625	204,663
<b>Total Operating Expenses</b>	<b>\$ 175,497</b>	<b>\$ 2,949,023</b>	<b>\$ 3,124,520</b>
<b>Operating Income (Loss)</b>	<b>\$ 49,750</b>	<b>\$ (292,838)</b>	<b>\$ (243,088)</b>
<b>Nonoperating Revenues (Expenses)</b>			
Interest income	\$ -	\$ 5,576	\$ 5,576
Gifts and contributions	-	615	615
Gain (loss) on sale/disposal of capital assets	-	(100,129)	(100,129)
Interest expense	(71,444)	-	(71,444)
Bond issue expense	(968)	-	(968)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ (72,412)</b>	<b>\$ (93,938)</b>	<b>\$ (166,350)</b>

**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, 2005**

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Prairieview Place</b>	<b>Traverse Care Center</b>	<b>Totals</b>
<b>Income (Loss) Before Transfers</b>	<b>\$ (22,662)</b>	<b>\$ (386,776)</b>	<b>\$ (409,438)</b>
Transfers in	6,321	-	6,321
<b>Change in Net Assets</b>	<b>\$ (16,341)</b>	<b>\$ (386,776)</b>	<b>\$ (403,117)</b>
<b>Net Assets - January 1</b>	<b>(81,808)</b>	<b>1,613,786</b>	<b>1,531,978</b>
<b>Net Assets - December 31</b>	<b><u>\$ (98,149)</u></b>	<b><u>\$ 1,227,010</u></b>	<b><u>\$ 1,128,861</u></b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**EXHIBIT 9**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
Increase (Decrease) in Cash and Cash Equivalents**

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Prairieview Place</b>	<b>Traverse Care Center</b>	<b>Totals</b>
<b>Cash Flows from Operating Activities</b>			
Receipts from customers and users	\$ 225,247	\$ 2,373,296	\$ 2,598,543
Payments to suppliers and employees	(125,827)	(2,619,083)	(2,744,910)
Interest paid on long-term debt	-	(107,271)	(107,271)
Other receipts and payments - net	-	63,760	63,760
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 99,420</b>	<b>\$ (289,298)</b>	<b>\$ (189,878)</b>
<b>Cash Flows from Noncapital Financing Activities</b>			
Rent deposits	\$ 440	\$ -	\$ 440
Contributions	-	615	615
Transfers in	6,712	-	6,712
Investments	-	(112)	(112)
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>\$ 7,152</b>	<b>\$ 503</b>	<b>\$ 7,655</b>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Principal paid on long-term debt	\$ (1,354,330)	\$ (25,926)	\$ (1,380,256)
Interest paid on long-term debt	(71,444)	-	(71,444)
Bond issuance cost	(24,694)	-	(24,694)
Proceeds from issuance of long-term debt	1,184,050	-	1,184,050
Purchases of capital assets	(5,450)	(1,008,704)	(1,014,154)
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>\$ (271,868)</b>	<b>\$ (1,034,630)</b>	<b>\$ (1,306,498)</b>
<b>Cash Flows from Investing Activities</b>			
(Increase) decrease in noncurrent cash and investments	\$ -	\$ (488)	\$ (488)
Investment earnings received	-	5,576	5,576
<b>Net cash provided by (used in) investing activities</b>	<b>\$ -</b>	<b>\$ 5,088</b>	<b>\$ 5,088</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ (165,296)</b>	<b>\$ (1,318,337)</b>	<b>\$ (1,483,633)</b>
<b>Cash and Cash Equivalents at January 1</b>	<b>226,917</b>	<b>2,053,853</b>	<b>2,280,770</b>
<b>Cash and Cash Equivalents at December 31</b>	<b>\$ 61,621</b>	<b>\$ 735,516</b>	<b>\$ 797,137</b>

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

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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**EXHIBIT 9  
(Continued)**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
Increase (Decrease) in Cash and Cash Equivalents**

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
<b>Cash and Cash Equivalents - Exhibit 7</b>			
Cash and pooled investments	\$ 52,677	\$ 506,905	\$ 559,582
Petty cash and change funds	50	-	50
Restricted cash and pooled investments	8,894	228,611	237,505
<b>Total Cash and Cash Equivalents</b>	<b>\$ 61,621</b>	<b>\$ 735,516</b>	<b>\$ 797,137</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>			
<b>Operating income (loss)</b>	<b>\$ 49,750</b>	<b>\$ (292,838)</b>	<b>\$ (243,088)</b>
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</b>			
Depreciation and amortization	\$ 46,038	\$ 158,625	\$ 204,663
(Increase) decrease in accounts receivable	-	(219,129)	(219,129)
(Increase) decrease in inventories	(169)	10,354	10,185
(Increase) decrease in prepaid items	-	(286)	(286)
Increase (decrease) in accounts payable	3,064	8,348	11,412
Increase (decrease) in compensated absences payable	523	-	523
Increase (decrease) in due to other funds	4	-	4
Increase (decrease) in due to other governments	210	-	210
Increase (decrease) in accrued expenses	-	45,628	45,628
<b>Total adjustments</b>	<b>\$ 49,670</b>	<b>\$ 3,540</b>	<b>\$ 53,210</b>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ 99,420</b>	<b>\$ (289,298)</b>	<b>\$ (189,878)</b>

## **FIDUCIARY FUNDS**

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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

***EXHIBIT 10***

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2005**

	<u>Agency</u>
<b><u>Assets</u></b>	
Cash and pooled investments	<u>\$ 79,554</u>
<b><u>Liabilities</u></b>	
Due to other governments	<u>\$ 79,554</u>

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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005**

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**1. Summary of Significant Accounting Policies**

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2005. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the County has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the County has chosen not to do so. The more significant accounting policies established in GAAP and used by the County are discussed below.

**A. Financial Reporting Entity**

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

**Joint Ventures**

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

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

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**

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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**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund type:

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 as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first and then unrestricted resources as needed.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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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, 2005, 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 2005 were \$51,036.

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.

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).

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

---

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

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

Advances between funds, as reported in the fund financial statements, are offset by a 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, 2005, the Traverse Care Center had an allowance for doubtful accounts of \$11,000.

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due May 15 and the second half payment due October 15. 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.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

5. Restricted Assets

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

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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 \$183,892.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

6. Capital Assets (Continued)

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.

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.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

9. Long-Term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net 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.

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.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

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 Care Center is reimbursed under the Alternative Payment System (APS). Reimbursement is based on the previous year's rates.

The State of Minnesota utilizes 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.

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, 2005, the occupancy percentage and the percentages of residents covered by the Medicaid and Medicare programs were as follows:

Total occupancy	98.7%
Medicaid	64.8%
Medicare	4.6%

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

E. Prior Period Adjustment

Fund balance at January 1, 2005, for the Social Services Special Revenue Fund was increased by \$45,196 to correct an overstatement in payables from 2004. The fund balance for the Social Services Special Revenue Fund was adjusted from \$335,998 to \$381,194. That correction also affected governmental activities' net assets, increasing them from \$27,186,404 to \$27,231,600.

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

The following major fund had a deficit fund balance as of December 31, 2005:

Road and Bridge Fund Special Revenue Fund	<u>\$ 193,154</u>
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The following major fund had deficit net assets as of December 31, 2005:

Prairieview Place Enterprise Fund	<u>\$ 98,149</u>
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The deficit fund balance in the Road and Bridge Special Revenue Fund is expected to be eliminated by future tax levies.

The deficit net assets in the Prairieview Place Enterprise Fund are expected to be eliminated by future earnings.

B. Excess of Expenditures Over Budget

The appropriated budget is prepared by fund, function, and department. The County's department head 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.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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2. Stewardship, Compliance, and Accountability

B. Excess of Expenditures Over Budget (Continued)

The following is a summary of the individual funds which had expenditures in excess of budget for the year ended December 31, 2005:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund	\$ 2,469,119	\$ 2,289,591	\$ 179,528
Social Services Special Revenue Fund	1,549,535	1,270,166	279,369

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Primary government	
Cash and pooled investments	\$ 2,276,145
Investments	102,098
Restricted assets	
Cash and pooled investments	237,505
Investments	17,878
Residents' trust fund	6,182
Fiduciary funds	
Cash and pooled investments	
Agency funds	<u>79,554</u>
Total Cash and Investments	<u>\$ 2,719,362</u>

a. Deposits

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

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County’s deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2005, the County’s deposits were not exposed to custodial credit risk.

b. Investments

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 ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (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.

Interest Rate Risk

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

Credit Risk

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

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County does not have a policy on custodial credit risk.

Concentrations of Credit Risk

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

The following table presents the County's deposit and investment balances at December 31, 2005, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
U.S. government agency securities					
Federal Home Loan Mortgage Corporation	AAA	S&P	23%	3/28/19	\$ 97,237
Federal Home Loan Bank	AAA	S&P	20%	6/15/18	\$ 85,112
U.S. Treasury Strip	N/A	N/A		11/15/08	\$ 200,350

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk Over 5 Percent of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
	Credit Rating	Rating Agency			
Investment pools/mutual funds					
Federated U.S. Government Fund	AAA	S&P			\$ 30,604
MAGIC Fund					5,787
Total investment pools/mutual funds			N/A		\$ 36,391
Total investments					\$ 419,090
Deposits					2,298,622
Change funds					1,650
Total Cash and Investments					\$ 2,719,362

N/A - Not Applicable

2. Receivables

Receivables as of December 31, 2005, for the County's governmental activities and business-type activities, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables
Governmental Activities	
Taxes	\$ 48,676
Special assessments	5,036
Accounts	41,197
Interest	7,311
Due from other governments	2,346,510
Total Governmental Activities	\$ 2,448,730
Business-Type Activities	
Accounts receivable	\$ 422,900

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

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 170,052	\$ 6,300	\$ -	\$ 176,352
Right-of-way	230,786	75,196	-	305,982
Construction in progress	1,562,426	2,219,590	270,481	3,511,535
Total capital assets not depreciated	\$ 1,963,264	\$ 2,301,086	\$ 270,481	\$ 3,993,869
Capital assets depreciated				
Buildings	\$ 2,851,337	\$ -	\$ -	\$ 2,851,337
Land improvements	34,967	-	-	34,967
Machinery, furniture, and equipment	3,414,393	97,372	14,973	3,496,792
Infrastructure	24,116,784	270,481	-	24,387,265
Total capital assets depreciated	\$ 30,417,481	\$ 367,853	\$ 14,973	\$ 30,770,361
Less: accumulated depreciation for				
Buildings	\$ 1,209,610	\$ 55,730	\$ -	\$ 1,265,340
Land improvements	9,164	1,748	-	10,912
Machinery, furniture, and equipment	2,060,586	234,087	14,973	2,279,700
Infrastructure	5,624,397	487,745	-	6,112,142
Total accumulated depreciation	\$ 8,903,757	\$ 779,310	\$ 14,973	\$ 9,668,094
Total capital assets depreciated, net	\$ 21,513,724	\$ (411,457)	\$ -	\$ 21,102,267
Governmental Activities Capital Assets, Net	\$ 23,476,988	\$ 1,889,629	\$ 270,481	\$ 25,096,136

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 16,175	\$ -	\$ -	\$ 16,175
Construction in progress	3,323,628	617,118	3,940,746	-
Total capital assets not depreciated	\$ 3,339,803	\$ 617,118	\$ 3,940,746	\$ 16,175
Capital assets depreciated				
Buildings	\$ 2,651,370	\$ 3,940,746	\$ 198,868	\$ 6,393,248
Land improvements	43,938	-	-	43,938
Machinery, furniture, and equipment	449,563	60,211	53,506	456,268
Total capital assets depreciated	\$ 3,144,871	\$ 4,000,957	\$ 252,374	\$ 6,893,454
Less: accumulated depreciation for				
Buildings	\$ 1,236,362	\$ 175,840	\$ 98,739	\$ 1,313,463
Land improvements	32,725	1,333	-	34,058
Machinery, furniture, and equipment	348,778	24,359	53,506	319,631
Total accumulated depreciation	\$ 1,617,865	\$ 201,532	\$ 152,245	\$ 1,667,152
Total capital assets depreciated, net	\$ 1,527,006	\$ 3,799,425	\$ 100,129	\$ 5,226,302
Business-Type Activities				
Capital Assets, Net	\$ 4,866,809	\$ 4,416,543	\$ 4,040,875	\$ 5,242,477

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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

Governmental Activities	
General government	\$ 34,725
Public safety	22,715
Highways and streets, including depreciation of infrastructure assets	709,840
Social services	6,789
Sanitation	3,114
Culture and recreation	168
Conservation of natural resources	<u>1,959</u>
 Total Depreciation Expense - Governmental Activities	 \$ <u>779,310</u>
 Business-Type Activities	
Traverse Care Center	\$ 155,494
Prairieview Place	<u>46,038</u>
 Total Depreciation Expense - Business-Type Activities	 \$ <u>201,532</u>

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2005, is as follows:

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Road and Bridge Special Revenue Fund	\$ 784
	Social Services Special Revenue Fund	30,160
	Prairieview Place Enterprise Fund	<u>31</u>
Total Due to General Fund		\$ <u>30,975</u>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds (Continued)

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Road and Bridge Special Revenue Fund	General Fund	\$ 3,408
	Social Services Special Revenue Fund	367
Total Due to Road and Bridge Special Revenue Fund		\$ 3,775
Total Due To/From Other Funds		\$ 34,750

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Traverse Care Center Enterprise Fund	Prairieview Place Enterprise Fund	\$ 56,961

The purpose of the advance from the Care Center to the Prairieview Place Enterprise Fund was for payment of debt issued for the construction of the congregate housing project.

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2005, consisted of the following:

Transfers to Prairieview Place Enterprise Fund from General Fund	\$ 6,321	Transfer investment income and provide operating funding
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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2005, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	\$ 132,127	\$ 51,924
Salaries	32,955	18,336
Accrued payroll taxes	-	2,415
Contracts	251,351	-
Due to other governments	238,932	720
Interest	3,484	76,622
Residents' trust fund	-	6,182
Rent deposits	-	8,894
	<hr/>	<hr/>
Total Payables	\$ 658,849	\$ 165,093

2. Deferred Revenue

Deferred revenue as of December 31, 2005, for the County is as follows:

	Deferred Unavailable	Deferred Unearned
Taxes and special assessments	\$ 53,712	\$ -
State-aid highway allotments	1,712,624	-
Charges for services	177,318	-
Grants	30,466	-
	<hr/>	<hr/>
Total Deferred	\$ 1,974,120	\$ -

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Construction Commitments

The government has active construction projects as of December 31, 2005. The projects include the following:

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Governmental Activities		
Roads and bridges	\$ 3,630,467	\$ 1,139,890

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, 2005, were:

	<u>Number of Participants</u>	<u>Contribution</u>
General Fund	15	\$ 50,415
Road and Bridge Special Revenue Fund	13	77,243
Social Services Special Revenue Fund	1	2,954
Traverse Care Center Enterprise Fund	11	59,001
Total		\$ 189,613

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, 2005:

<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>\$ 192,235</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2005, were as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2006	\$ 25,799
2007	25,799
2008	25,799
2009	25,799
2010	25,799
2011 - 2014	<u>82,769</u>
Total minimum lease payments	\$ 211,764
Less: amount representing interest	<u>(19,529)</u>
Present Value of Minimum Lease Payments	<u><u>\$ 192,235</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, 2005</u>
2002 G.O. Capital Equipment Notes	2006	\$180,000 - \$190,000	7.50	<u>\$ 550,000</u>	<u>\$ 190,000</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, 2005</u>
USDA Loan	2014	\$44,444	-	\$ 400,000	<u>\$ 374,074</u>
2005 G.O. Governmental Housing Refunding Bonds	2026	\$30,000 - \$85,000	5.00	\$ 1,190,000	\$ 1,140,000
Less: unamortized discount					<u>(5,762)</u>
G.O. Bonds Net					<u>\$ 1,134,238</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>10,900</u>
Total Revenue Bonds Net					<u>\$ 3,755,900</u>

Refunding Bonds

On May 3, 2005, \$1,190,000 General Obligation Governmental Housing Refunding Bonds were sold to refund General Obligation Governmental Housing Bonds of 1997. The County refunded the General Obligation Governmental Housing Bonds of 1997 to reduce its total debt service payments by \$170,951 and to obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of \$158,261.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

7. Debt Service Requirements

Debt service requirements at December 31, 2005, were as follows:

Governmental Activities

Year Ending December 31	Capital Notes	
	Principal	Interest
2006	\$ 190,000	\$ 3,087

Business-Type Activities

Year Ending December 31	General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2006	\$ 30,000	\$ 57,000	\$ 75,000	\$ 182,674
2007	35,000	55,500	75,000	180,236
2008	35,000	53,750	80,000	177,618
2009	35,000	52,000	80,000	174,818
2010	40,000	50,250	85,000	171,718
2011 - 2015	225,000	219,750	365,000	648,900
2016 - 2020	290,000	157,750	550,000	705,706
2021 - 2025	365,000	77,750	685,000	551,515
2026 - 2030	85,000	4,250	875,000	391,280
2031 - 2033	-	-	875,000	54,723
Total	\$ 1,140,000	\$ 728,000	\$ 3,745,000	\$ 3,239,188

Year Ending December 31	USDA Loan Principal
2006	\$ 44,444
2007	44,444
2008	44,444
2009	44,444
2010	44,444
2011 - 2014	151,854
Total	\$ 374,074

**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, 2005, 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 Activities					
Long-Term Liabilities					
Bonds payable					
G.O. capital notes	\$ 370,000	\$ -	\$ 180,000	\$ 190,000	\$ 190,000
Capital leases	213,288	-	21,053	192,235	21,536
Compensated absences	191,271	132,877	117,229	206,919	104,548
Governmental Activities					
Long-Term Liabilities	<u>\$ 774,559</u>	<u>\$ 132,877</u>	<u>\$ 318,282</u>	<u>\$ 589,154</u>	<u>\$ 316,084</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 Activities					
Long-Term Liabilities					
Bonds payable					
General obligation bonds	\$ 1,315,000	\$ -	\$ 1,315,000	\$ -	\$ -
General obligation refunding bonds	-	1,190,000	50,000	1,140,000	30,000
Revenue bonds	3,745,000	-	-	3,745,000	75,000
Deferred amounts for issuance premium/discounts	464	10,858	6,184	5,138	-
Total bonds payable	\$ 5,060,464	\$ 1,200,858	\$ 1,371,184	\$ 4,890,138	\$ 105,000
Loan payable	400,000	-	25,926	374,074	44,444
Compensated absences	77,712	74,869	49,469	103,112	103,112
Business-Type Activities					
Long-Term Liabilities	<u>\$ 5,538,176</u>	<u>\$ 1,275,727</u>	<u>\$ 1,446,579</u>	<u>\$ 5,367,324</u>	<u>\$ 252,556</u>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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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 the Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service.

For Public Employees 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**

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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 [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

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 in 2005. Contribution rates in the Coordinated Plan increased in 2006 to 5.50 percent. Public Employees Police and Fire Fund members are required to contribute 6.20 percent of their annual covered salary in 2005. That rate increased to 7.00 percent in 2006.

The County is required to contribute the following percentages of annual covered payroll in 2005 and 2006:

	<u>2005</u>	<u>2006</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	5.53	6.00
Public Employees Police and Fire Fund	9.30	10.50

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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4. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

The County's contributions for the years ending December 31, 2005, 2004, and 2003, 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
2005	\$ 177,388	\$ 13,821
2004	174,500	12,664
2003	167,486	12,287

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 MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$760,000 per claim in 2005 and \$390,000 per claim in 2006. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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5. Risk Management (Continued)

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

6. 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, 2005:

Medicare	35%
Medicaid	50%
Resident and Other Third-Party Payors	15%
	<hr/>
Total	100%
	<hr/>

7. Summary of Significant Contingencies and Other Items

A. Claims and Litigation

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

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

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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

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 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.

C. Joint Ventures

Stevens Traverse Grant Public Health Nursing Service

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

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

Financing is provided by state grants, appropriations from Grant, Stevens, and Traverse Counties, and charges for services. Traverse County's contribution for 2005 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

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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7. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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 Services  
621 Pacific Avenue  
Morris, Minnesota 56267

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

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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7. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Minnesota River Basin Joint Powers

Traverse County entered into a joint powers agreement to promote the orderly water quality improvement and management of the Minnesota River watershed, pursuant to Minn. Stat. § 471.59. The management of the Joint Powers 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 2005.

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

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

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.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Area Agency on Aging (Continued)

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.

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 2005.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Prime West Central County-Based Purchasing Initiative (Continued)

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.

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  
WHEATON, MINNESOTA**

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7. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

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.

Financing is provided by state and federal grants and contributions from the member parties. Traverse County, in an agent capacity, reports the cash transactions of Traverse County Connections as an agency fund on its financial statements. The County did not contribute any funds in 2005.

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

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

E. Related Organization

Traverse County Housing and Redevelopment Authority (HRA)

The Traverse County HRA has its own governing board appointed by the Traverse County Board of Commissioners. The County's accountability for the organization does not extend beyond making the appointments. In 2005, the HRA issued \$1,190,000 General Obligation Governmental Housing Refunding Bonds on behalf of Traverse County, which is responsible for making the payments. The balance of this debt outstanding is \$1,080,324, net of discount and unamortized issuance costs.

8. Subsequent Event

Bond Issue

The County issued \$2,515,000 General Obligation Jail Bonds, Series 2006A, dated November 15, 2006.

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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, 2005**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Revenues</b>				
Taxes	\$ 1,687,124	\$ 1,687,124	\$ 1,569,135	\$ (117,989)
Special assessments	-	-	56,263	56,263
Licenses and permits	2,440	2,440	2,649	209
Intergovernmental	380,216	380,216	592,519	212,303
Charges for services	120,700	120,700	128,782	8,082
Fines and forfeits	400	400	-	(400)
Investment earnings	95,000	95,000	49,664	(45,336)
Miscellaneous	64,400	64,400	257,406	193,006
<b>Total Revenues</b>	<b>\$ 2,350,280</b>	<b>\$ 2,350,280</b>	<b>\$ 2,656,418</b>	<b>\$ 306,138</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 173,567	\$ 173,567	\$ 164,184	\$ 9,383
Courts	200	200	5,945	(5,745)
Law library	9,000	9,000	7,690	1,310
County coordinator	78,405	78,405	78,050	355
County auditor	113,492	113,492	128,380	(14,888)
License bureau	38,656	38,656	50,440	(11,784)
County treasurer	106,332	106,332	97,283	9,049
County assessor	60,693	60,693	63,877	(3,184)
Elections	-	-	706	(706)
Accounting and auditing	30,000	30,000	39,386	(9,386)
Data processing	58,900	58,900	63,558	(4,658)
Attorney	61,425	61,425	58,543	2,882
Recorder	117,233	117,233	110,530	6,703
Buildings and plant	87,628	87,628	101,135	(13,507)
Maintenance	-	-	459	(459)
Veterans service officer	84,033	84,033	86,359	(2,326)
Unallocated	152,174	152,174	57,303	94,871
<b>Total general government</b>	<b>\$ 1,171,738</b>	<b>\$ 1,171,738</b>	<b>\$ 1,113,828</b>	<b>\$ 57,910</b>
<b>Public safety</b>				
Sheriff	\$ 618,556	\$ 618,556	\$ 575,126	\$ 43,430
Boat and water safety	3,000	3,000	4,842	(1,842)
Coroner	2,000	2,000	2,000	-
Enhanced 911 system	-	-	8,795	(8,795)
Probation and parole	27,547	27,547	211,323	(183,776)
Civil defense	6,615	6,615	34,120	(27,505)
<b>Total public safety</b>	<b>\$ 657,718</b>	<b>\$ 657,718</b>	<b>\$ 836,206</b>	<b>\$ (178,488)</b>
<b>Sanitation</b>				
Recycling	\$ 47,596	\$ 47,596	\$ 82,569	\$ (34,973)

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**Schedule 1**  
**(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Health</b>				
Nursing service	\$ 70,638	\$ 70,638	\$ 69,406	\$ 1,232
<b>Culture and recreation</b>				
Historical society	\$ -	\$ -	\$ 5,000	\$ (5,000)
County fair	10,000	10,000	479	9,521
Parks	11,930	11,930	9,903	2,027
Senior citizens	-	-	150	(150)
Regional library	36,282	36,282	30,832	5,450
<b>Total culture and recreation</b>	<b>\$ 58,212</b>	<b>\$ 58,212</b>	<b>\$ 46,364</b>	<b>\$ 11,848</b>
<b>Conservation of natural resources</b>				
County extension	\$ 119,596	\$ 119,596	\$ 113,475	\$ 6,121
Soil and water conservation	81,545	81,545	124,018	(42,473)
Agricultural society/county fair	-	-	13,971	(13,971)
Weed control	38,373	38,373	42,727	(4,354)
Other	-	-	338	(338)
<b>Total conservation of natural resources</b>	<b>\$ 239,514</b>	<b>\$ 239,514</b>	<b>\$ 294,529</b>	<b>\$ (55,015)</b>
<b>Economic development</b>				
Community development	\$ 8,375	\$ 8,375	\$ 418	\$ 7,957
<b>Debt service</b>				
Principal	\$ 10,500	\$ 10,500	\$ 21,053	\$ (10,553)
Interest	\$ 25,300	\$ 25,300	\$ 4,746	\$ 20,554
<b>Total Expenditures</b>	<b>\$ 2,289,591</b>	<b>\$ 2,289,591</b>	<b>\$ 2,469,119</b>	<b>\$ (179,528)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 60,689</b>	<b>\$ 60,689</b>	<b>\$ 187,299</b>	<b>\$ 126,610</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	-	-	(6,321)	(6,321)
<b>Net Change in Fund Balance</b>	<b>\$ 60,689</b>	<b>\$ 60,689</b>	<b>\$ 180,978</b>	<b>\$ 120,289</b>
<b>Fund Balance - January 1</b>	<b>862,102</b>	<b>862,102</b>	<b>862,102</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 922,791</b>	<b>\$ 922,791</b>	<b>\$ 1,043,080</b>	<b>\$ 120,289</b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**Schedule 2**

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Revenues</b>				
Taxes	\$ 573,738	\$ 573,738	\$ 533,499	\$ (40,239)
Intergovernmental	4,069,067	4,069,067	3,359,851	(709,216)
Charges for services	140,000	140,000	139,890	(110)
Miscellaneous	85,000	85,000	3,227	(81,773)
<b>Total Revenues</b>	<b>\$ 4,867,805</b>	<b>\$ 4,867,805</b>	<b>\$ 4,036,467</b>	<b>\$ (831,338)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 284,568	\$ 284,568	\$ 355,849	\$ (71,281)
Maintenance	691,226	691,226	656,511	34,715
Construction	3,423,112	3,423,112	2,626,247	796,865
Equipment maintenance and shop	571,963	571,963	726,509	(154,546)
Materials and services for resale	19,131	19,131	35,303	(16,172)
<b>Total highways and streets</b>	<b>\$ 4,990,000</b>	<b>\$ 4,990,000</b>	<b>\$ 4,400,419</b>	<b>\$ 589,581</b>
<b>Intergovernmental</b>				
Highways and streets	-	-	167,557	(167,557)
<b>Total Expenditures</b>	<b>\$ 4,990,000</b>	<b>\$ 4,990,000</b>	<b>\$ 4,567,976</b>	<b>\$ 422,024</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ (122,195)</b>	<b>\$ (122,195)</b>	<b>\$ (531,509)</b>	<b>\$ (409,314)</b>
<b>Fund Balance - January 1</b>	<b>334,650</b>	<b>334,650</b>	<b>334,650</b>	<b>-</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>-</b>	<b>3,705</b>	<b>3,705</b>
<b>Fund Balance - December 31</b>	<b>\$ 212,455</b>	<b>\$ 212,455</b>	<b>\$ (193,154)</b>	<b>\$ (405,609)</b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**Schedule 3**

**BUDGETARY COMPARISON SCHEDULE  
SOCIAL SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Revenues</b>				
Taxes	\$ 522,257	\$ 522,257	\$ 486,302	\$ (35,955)
Intergovernmental	673,909	673,909	963,497	289,588
Charges for services	-	-	6,898	6,898
Miscellaneous	10,000	10,000	81,756	71,756
<b>Total Revenues</b>	<b>\$ 1,206,166</b>	<b>\$ 1,206,166</b>	<b>\$ 1,538,453</b>	<b>\$ 332,287</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human Services</b>				
Income maintenance	\$ 325,866	\$ 325,866	\$ 517,371	\$ (191,505)
Social services	944,300	944,300	1,032,164	(87,864)
<b>Total Expenditures</b>	<b>\$ 1,270,166</b>	<b>\$ 1,270,166</b>	<b>\$ 1,549,535</b>	<b>\$ (279,369)</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ (64,000)</b>	<b>\$ (64,000)</b>	<b>\$ (11,082)</b>	<b>\$ 52,918</b>
Fund Balance - January 1	\$ 335,998	\$ 335,998	\$ 335,998	\$ -
Prior period adjustment	-	-	45,196	45,196
<b>Fund Balance - January 1, as restated</b>	<b>\$ 335,998</b>	<b>\$ 335,998</b>	<b>\$ 381,194</b>	<b>\$ 45,196</b>
<b>Fund Balance - December 31</b>	<b>\$ 271,998</b>	<b>\$ 271,998</b>	<b>\$ 370,112</b>	<b>\$ 143,310</b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2005**

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**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 Projects 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, 2005, expenditures exceeded appropriations in the General Fund by \$179,528 and in the Social Services Special Revenue Fund by \$279,369. 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 PROJECTS FUND**

The Capital Equipment Capital Projects 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, 2005**

	<b>Building Special Revenue</b>	<b>Capital Equipment Debt Service</b>	<b>Capital Equipment Capital Projects</b>	<b>Total</b>
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 190,012	\$ 210,973	\$ 31,534	\$ 432,519
Undistributed cash in agency funds	190	2,597	-	2,787
Taxes receivable				
Current	147	1,985	-	2,132
Prior	-	929	-	929
<b>Total Assets</b>	<b><u>\$ 190,349</u></b>	<b><u>\$ 216,484</u></b>	<b><u>\$ 31,534</u></b>	<b><u>\$ 438,367</u></b>
<b><u>Liabilities and Fund Balances</u></b>				
<b>Liabilities</b>				
Accounts payable	\$ 7,948	\$ -	\$ -	\$ 7,948
Deferred revenue - unavailable	147	2,914	-	3,061
<b>Total Liabilities</b>	<b><u>\$ 8,095</u></b>	<b><u>\$ 2,914</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 11,009</u></b>
<b>Fund Balances</b>				
Unreserved				
Designated for debt service	\$ -	\$ 213,570	\$ -	\$ 213,570
Designated for capital equipment	-	-	31,534	31,534
Undesignated	182,254	-	-	182,254
<b>Total Fund Balances</b>	<b><u>\$ 182,254</u></b>	<b><u>\$ 213,570</u></b>	<b><u>\$ 31,534</u></b>	<b><u>\$ 427,358</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 190,349</u></b>	<b><u>\$ 216,484</u></b>	<b><u>\$ 31,534</u></b>	<b><u>\$ 438,367</u></b>

**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, 2005**

	<b>Building Special Revenue</b>	<b>Capital Equipment Debt Service</b>	<b>Capital Equipment Capital Projects</b>	<b>Total</b>
<b>Revenues</b>				
Taxes	\$ 12,224	\$ 166,465	\$ -	\$ 178,689
Intergovernmental	2,672	36,120	-	38,792
Miscellaneous	49,111	-	-	49,111
<b>Total Revenues</b>	<b>\$ 64,007</b>	<b>\$ 202,585</b>	<b>\$ -</b>	<b>\$ 266,592</b>
<b>Expenditures</b>				
<b>Current</b>				
General government	\$ 9,637	\$ -	\$ -	\$ 9,637
<b>Debt service</b>				
Principal	-	180,000	-	180,000
Interest	-	9,250	-	9,250
<b>Total Expenditures</b>	<b>\$ 9,637</b>	<b>\$ 189,250</b>	<b>\$ -</b>	<b>\$ 198,887</b>
<b>Net Change in Fund Balance</b>	<b>\$ 54,370</b>	<b>\$ 13,335</b>	<b>\$ -</b>	<b>\$ 67,705</b>
<b>Fund Balance - January 1</b>	<b>127,884</b>	<b>200,235</b>	<b>31,534</b>	<b>359,653</b>
<b>Fund Balance - December 31</b>	<b>\$ 182,254</b>	<b>\$ 213,570</b>	<b>\$ 31,534</b>	<b>\$ 427,358</b>

**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, 2005**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>SCHOOL DISTRICTS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 796,575	\$ 796,575	\$ -
<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 796,575	\$ 796,575	\$ -
<b><u>STATE REVENUE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 8,461	\$ 531,947	\$ 535,809	\$ 4,599
<b><u>Liabilities</u></b>				
Due to other governments	\$ 8,461	\$ 531,947	\$ 535,809	\$ 4,599
<b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 78,944	\$ 2,543,703	\$ 2,579,384	\$ 43,263
<b><u>Liabilities</u></b>				
Due to other governments	\$ 78,944	\$ 2,543,703	\$ 2,579,384	\$ 43,263

**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, 2005**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>TOWNS AND CITIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 1,535,622	\$ 1,535,622	\$ -
<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 1,535,622	\$ 1,535,622	\$ -
<b><u>TRAVERSE COUNTY CONNECTIONS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 2,866	\$ 96,600	\$ 78,187	\$ 21,279
Due from other funds	7,514	-	7,514	-
<b>Total Assets</b>	<b>\$ 10,380</b>	<b>\$ 96,600</b>	<b>\$ 85,701</b>	<b>\$ 21,279</b>
<b><u>Liabilities</u></b>				
Due to other funds	\$ 1,466	\$ -	\$ 1,466	\$ -
Due to other governments	8,914	96,600	84,235	21,279
<b>Total Liabilities</b>	<b>\$ 10,380</b>	<b>\$ 96,600</b>	<b>\$ 85,701</b>	<b>\$ 21,279</b>
<b><u>COMMUNITIES UNITED IN PARTNERSHIP</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 22,913	\$ 1,250	\$ 13,750	\$ 10,413
<b><u>Liabilities</u></b>				
Due to other governments	\$ 22,913	\$ 1,250	\$ 13,750	\$ 10,413

**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, 2005**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 113,184	\$ 5,505,697	\$ 5,539,327	\$ 79,554
Due from other funds	7,514	-	7,514	-
<b>Total Assets</b>	<b><u>\$ 120,698</u></b>	<b><u>\$ 5,505,697</u></b>	<b><u>\$ 5,546,841</u></b>	<b><u>\$ 79,554</u></b>
<b><u>Liabilities</u></b>				
Due to other funds	\$ 1,466	\$ -	\$ 1,466	\$ -
Due to other governments	119,232	5,505,697	5,545,375	79,554
<b>Total Liabilities</b>	<b><u>\$ 120,698</u></b>	<b><u>\$ 5,505,697</u></b>	<b><u>\$ 5,546,841</u></b>	<b><u>\$ 79,554</u></b>

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## **OTHER SCHEDULES**

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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**Schedule 4**

**SCHEDULE OF DEPOSITS AND INVESTMENTS  
DECEMBER 31, 2005**

	<b>Interest Rate (%)</b>	<b>Maturity Date</b>	<b>Fair Value</b>
<b>Cash and Pooled Investments</b>			
Cash on hand	-	-	\$ 1,650
Non-interest bearing checking (two)	-	Continuous	65,718
Interest-bearing checking (two)	0.10 to 1.41	Continuous	1,249,901
Money market savings (three)	2.23 to 3.64	Continuous	500,358
Certificates of deposit (three)	1.25 to 3.60	May 4, 2006 to December 1, 2006	345,007
Mutual funds (two)	1.60 to 4.15	Continuous	36,391
U.S. Treasury strip	-	November 15, 2008	200,350
Federal Home Loan Mortgage Corporation	4.11	March 28, 2019	97,237
Federal Home Loan Bank	4.22	June 15, 2018	85,112
Broker-held money markets (two)	1.25 to 2.50	Continuous	11,480
<b>Total Cash and Pooled Investments</b>			<b><u>\$ 2,593,204</u></b>
<b>Investments from Funds</b>			
<b>General Fund</b>			
Certificate of deposit	3.25	June 2, 2006	<b><u>\$ 66,694</u></b>
<b>Traverse Care Center Enterprise Fund</b>			
Interest-bearing checking (two)	0.10 to 0.60	Continuous	\$ 10,217
Certificates of deposit (three)	1.25 to 3.25	June 2, 2006 to December 31, 2006	49,247
<b>Total Traverse Care Center Enterprise Fund</b>			<b><u>\$ 59,464</u></b>
<b>Total Investments from Funds</b>			<b><u>\$ 126,158</u></b>

**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**Schedule 5**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>Governmental Funds</b>
<hr/>	
<b>Shared Revenue</b>	
<b>State</b>	
Highway users tax	\$ 3,244,050
Program aid	392,945
Market value credit (MVC)	183,022
Mobile home MVC	652
PERA rate reimbursement	16,482
Disparity reduction aid	18,777
Police aid	12,664
Wetland reimbursement credit	1,277
	<hr/>
<b>Total Shared Revenue</b>	<b>\$ 3,869,869</b>
<hr/>	
<b>Reimbursement for Services</b>	
<b>State</b>	
Minnesota Department of Human Services	\$ 471,851
	<hr/>
<b>Payments</b>	
<b>Local</b>	
Payments in lieu of taxes	\$ 10,147
	<hr/>
<b>Grants</b>	
<b>State</b>	
Minnesota Department of	
Revenue	\$ 360
Corrections	13,606
Public Safety	59,419
Employment and Economic Development	39
Natural Resources	3,457
Human Services	246,039
Water and Soil Resources Board	20,520
Office of Environmental Assistance	49,079
Peace Officer Standards and Training Board	1,057
	<hr/>
<b>Total State</b>	<b>\$ 393,576</b>
<hr/>	
<b>Federal</b>	
Department of	
Agriculture	\$ 1,237
Health and Human Services	155,877
Homeland Security	52,102
	<hr/>
<b>Total Federal</b>	<b>\$ 209,216</b>
<hr/>	
<b>Total State and Federal Grants</b>	<b>\$ 602,792</b>
<hr/>	
<b>Total Intergovernmental Revenue</b>	<b>\$ 4,954,659</b>
	<hr/>



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**TRAVERSE COUNTY  
WHEATON, MINNESOTA**

**Schedule 6**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

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

**INTERNAL CONTROL**

**PREVIOUSLY REPORTED ITEMS 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.*

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 a declaration 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 a declaration that the claim is true and correct.

**Client's Response:**

*The County will implement policies and procedures outlining a review and approval process for time and leave records of supervisors, including updating the current policy for all other employees. The policy will include a declaration stating that the payroll report and accounting of the supervisor's and/or employee's time is true and correct.*

**II. OTHER FINDINGS AND RECOMMENDATIONS**

**A. MINNESOTA LEGAL COMPLIANCE**

**PREVIOUSLY REPORTED ITEM NOT RESOLVED**

**04-2 Depository Pledge Agreement**

The depository pledge agreement with Bank of the West provides the bank at least three business days and an opportunity to cure the default before the custodian (Wells Fargo Bank Minnesota, National Association) 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.

We recommend that the County Auditor/Treasurer work with Bank of the West on making the necessary changes to the depository pledge agreement to be in compliance with Minn. Stat. § 118A.03, subd. 4.

Client's Response:

*The County Auditor/Treasurer will work with the Bank of the West (formerly known as Community First National Bank) to make the necessary changes to the depository pledge agreement so that compliance is reached with Minn. Stat. § 118A.03, subd. 4.*

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 \$98,149 at December 31, 2005. Prairieview Place had a net operating income of \$49,750. 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 2005 due to a net loss of \$22,622, resulting from interest expense, offset with an operating transfer from the General Fund of \$6,321.

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 net income is sufficient for management control and maintenance of Prairieview Place.*

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 will allow for the recording of all detailed financial transactions in a consolidated general ledger.*

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, similar to 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, and the County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the County Board will have to wait until legislation is enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard; 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.

Client's Response:

*The Traverse County Board will address all appropriate issues to comply with GASB Statements No. 43 and No. 45 to reach compliance in the years ending December 31, 2008 and 2009, respectively.*

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

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

Board of County Commissioners  
Traverse County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Traverse County as of and for the year ended December 31, 2005, and have issued our report thereon dated November 15, 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/Rebecca Otto

REBECCA OTTO  
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: November 15, 2006