

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

TRAVERSE COUNTY
WHEATON, MINNESOTA

YEAR ENDED DECEMBER 31, 2006

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: www.auditor.state.mn.us.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Year Ended December 31, 2006



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

This page was left blank intentionally.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management Discussion and Analysis		4
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Assets	Exhibit 1	12
Statement of Activities	Exhibit 2	14
Fund Financial Statements		
Governmental Funds		
Balance Sheet	Exhibit 3	16
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets--Governmental Activities	Exhibit 4	20
Statement of Revenues, Expenditures, and Changes in Fund Balances	Exhibit 5	21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	Exhibit 6	23
Proprietary Funds		
Statement of Fund Net Assets	Exhibit 7	24
Statement of Revenues, Expenses, and Changes in Fund Net Assets	Exhibit 8	26
Statement of Cash Flows	Exhibit 9	28
Fiduciary Funds		
Statement of Fiduciary Net Assets	Exhibit 10	30
Notes to the Financial Statements		31
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	Schedule 1	68
Road and Bridge Special Revenue Fund	Schedule 2	70
Social Services Special Revenue Fund	Schedule 3	71
Notes to the Required Supplementary Information		72

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
Financial Section (Continued)		
Supplementary Information		
Nonmajor Governmental Funds		73
Combining Balance Sheet	Statement A-1	74
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	Statement A-2	75
Budgetary Comparison Schedule		
Building Special Revenue Fund	Schedule 4	76
Agency Funds		77
Combining Statement of Changes in Assets and Liabilities	Statement B-1	78
Other Schedules		
Schedule of Deposits and Investments	Schedule 5	81
Schedule of Intergovernmental Revenue	Schedule 6	82
Management and Compliance Section		
Schedule of Findings and Recommendations	Schedule 7	83
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		92

This page was left blank intentionally.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**ORGANIZATION
DECEMBER 31, 2006**

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

*Jerry Deal was elected as the new Commissioner effective January 2, 2007.

**Kit Johnson was elected as the new County Auditor/Treasurer effective January 2, 2007.

This page was left blank intentionally.

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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

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

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Traverse County

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, 2006, 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, 110 percent, and 93 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, 2006,

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2008, 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

March 20, 2008

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

This page was left blank intentionally.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006
(Unaudited)**

INTRODUCTION

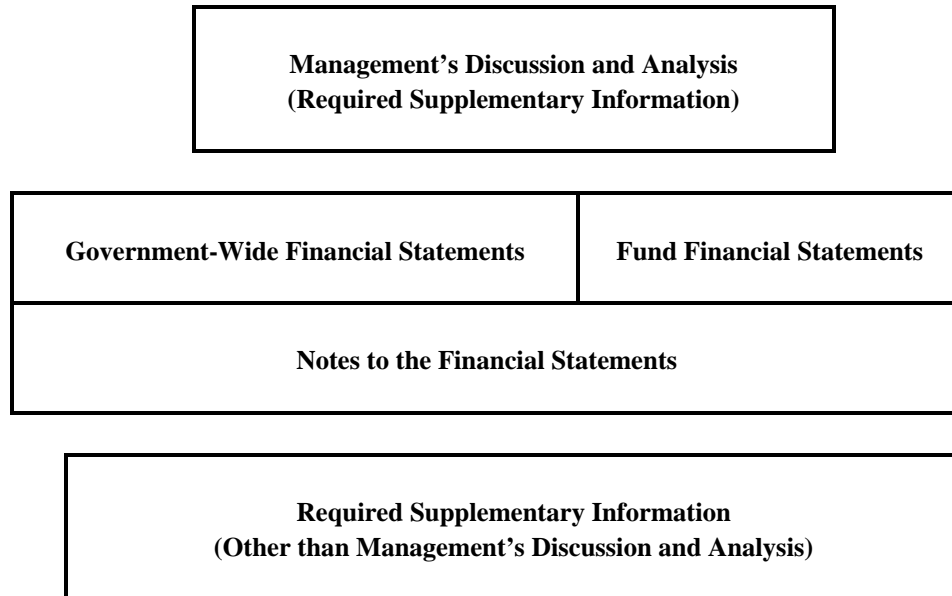
Traverse County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2006. Since this information is designed to focus on the audited year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' net assets are \$29,366,673, of which \$24,148,055 is invested in capital assets, net of related debt, and \$1,336,545 of the governmental activities' net assets are restricted to specific purposes/uses by the County.
- Business-type activities have total net assets of \$956,813, of which there is a negative balance of \$104,806 invested in capital assets, net of related debt. Of the business-type activities' net assets, \$232,106 are restricted for specific purposes/uses by the County.
- Traverse County's net assets increased by \$1,524,135 for the year ended December 31, 2006. Of the increase, \$1,696,183 was in the governmental activities' net assets, while the business-type activities' net assets decreased by \$172,048.
- The net cost of Traverse County's governmental activities for year ended December 31, 2006, was \$2,196,308. The net cost was funded by general revenues and other items totaling \$3,892,491.
- Traverse County's governmental funds' fund balances increased by \$2,319,096. This increase was mainly due to a \$1,837,393 increase in the Jail/LEC Construction Capital Projects Fund, an increase of \$180,664 in the General Fund, an increase of \$204,295 in the Road and Bridge Special Revenue Fund, and an increase of \$182,121 in the Social Services Special Revenue Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

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



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

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

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

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

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

- Governmental activities--Most of Traverse County's basic services are reported here, including general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development. Property taxes and state and federal grants finance most of these activities.
- Business-type activities--The County charges a fee to customers to cover all or most of the cost of services it provides. Traverse Care Center's and Prairieview Place's activities are reported here.

Fund Financial Statements

Traverse County's fund financial statements provide detailed information about the significant funds--not the County as a whole. Some funds are required to be established by state law and by bond covenants. However, the Traverse County Board establishes some funds to help control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The County's two kinds of funds--governmental and proprietary--use different accounting methods.

- **Governmental funds**--Most of the County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. The relationship (or differences) between the governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds are described in a reconciliation following each governmental fund financial statement.
- **Proprietary funds**--When the County charges customers for the services it provides--whether to outside customers or to other units of the County--these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the County's enterprise fund presents the same information as the business-type activities in the government-wide statements but provides more detail and additional information, such as cash flows.

Reporting the County's Fiduciary Responsibilities

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

THE COUNTY AS A WHOLE

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

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005 (Restated)	2006	2005	2006	2005 (Restated)
Assets						
Current and other assets	\$ 6,397,777	\$ 3,822,357	\$ 1,341,054	\$ 1,418,801	\$ 7,738,831	\$ 5,241,158
Capital assets	26,845,472	25,096,136	4,987,104	5,242,477	31,832,576	30,338,613
Total Assets	\$ 33,243,249	\$ 28,918,493	\$ 6,328,158	\$ 6,661,278	\$ 39,571,407	\$ 35,579,771
Liabilities						
Long-term liabilities	\$ 2,971,259	\$ 589,154	\$ 5,208,854	\$ 5,367,324	\$ 8,180,113	\$ 5,956,478
Other liabilities	905,317	658,849	162,491	165,093	1,067,808	823,942
Total Liabilities	\$ 3,876,576	\$ 1,248,003	\$ 5,371,345	\$ 5,532,417	\$ 9,247,921	\$ 6,780,420
Net Assets						
Invested in capital assets, net of debt	\$ 24,148,055	\$ 24,713,901	\$ (104,806)	\$ 2,179	\$ 24,043,249	\$ 24,716,080
Restricted	1,336,545	993,470	232,106	228,611	1,568,651	1,222,081
Unrestricted	3,882,073	1,963,119	829,513	898,071	4,711,586	2,861,190
Total Net Assets	\$ 29,366,673	\$ 27,670,490	\$ 956,813	\$ 1,128,861	\$ 30,323,486	\$ 28,799,351

Traverse County's total net assets as of December 31, 2006, total \$30,323,486. The governmental activities' unrestricted net assets totaling \$3,882,073 are available to finance the day-to-day operations of the governmental activities of the County. The remaining unrestricted net assets totaling \$829,513 are available to finance the day-to-day operations of the business-type operations of the County.

Table 2
Change in Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005 (Restated)	2006	2005	2006	2005 (Restated)
Revenues						
Program revenues						
Fees, fines, and charges	\$ 831,610	\$ 712,323	\$ 3,160,098	\$ 2,881,432	\$ 3,991,708	\$ 3,593,755
Operating grants and Contributions	3,356,971	3,440,829	12,560	615	3,369,531	3,441,444
Capital grants and contributions	183,018	173,339	-	-	183,018	173,339
General revenues						
Property taxes	3,237,523	2,775,555	-	-	3,237,523	2,775,555
Other taxes	12,566	10,147	-	-	12,566	10,147
Grants, gifts, and miscellaneous	663,951	762,462	9,662	5,576	673,613	768,038
Total Revenues	\$ 8,285,639	\$ 7,874,655	\$ 3,182,320	\$ 2,887,623	\$ 11,467,959	\$ 10,762,278

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005 (Restated)	2006	2005	2006	2005 (Restated)
Expenses						
General government	\$ 1,398,162	\$ 1,144,583	\$ -	\$ -	\$ 1,398,162	\$ 1,144,583
Public safety	955,957	817,173	-	-	955,957	817,173
Highways and streets	2,520,316	2,974,400	-	-	2,520,316	2,974,400
Sanitation	5,785	85,683	-	-	5,785	85,683
Human services	1,254,213	1,531,095	-	-	1,254,213	1,531,095
Health	78,279	69,406	-	-	78,279	69,406
Culture and recreation	46,348	43,532	-	-	46,348	43,532
Conservation of natural resources	292,877	296,973	-	-	292,877	296,973
Economic development	2,142	418	-	-	2,142	418
Interest	13,828	11,657	-	-	13,828	11,657
Prairieview Place	-	-	239,756	247,909	239,756	247,909
Traverse Care Center	-	-	3,136,161	3,049,152	3,136,161	3,049,152
Total Expenses	\$ 6,567,907	\$ 6,974,920	\$ 3,375,917	\$ 3,297,061	\$ 9,943,824	\$ 10,271,981
Increase (Decrease) Before Transfers	\$ 1,717,732	\$ 899,735	\$ (193,597)	\$ (409,438)	\$ 1,524,135	\$ 490,297
Transfers	(21,549)	(6,321)	21,549	6,321	-	-
Increase (Decrease) in Net Assets	\$ 1,696,183	\$ 893,414	\$ (172,048)	\$ (403,117)	\$ 1,524,135	\$ 490,297
Net Assets - January 1	27,670,490	26,777,076	1,128,861	1,531,978	28,799,351	28,309,054
Net Assets - December 31	\$ 29,366,673	\$ 27,670,490	\$ 956,813	\$ 1,128,861	\$ 30,323,486	\$ 28,799,351

The County's activities increased net assets by 5.29 percent (\$30,323,486 for 2006 compared to \$28,799,351 for 2005).

Governmental Activities

The cost of all governmental activities in 2006 was \$6,567,907. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through County taxes and other general revenues was only \$2,196,308, because some of the cost was paid by those who directly benefited from the programs (\$831,610) or by other governments and organizations that subsidized certain programs with grants and contributions (\$3,539,989).

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

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005
Highways and streets	\$ 2,520,316	\$ 2,974,400	\$ (145,556)	\$ 214,383
General government	1,398,162	1,144,583	1,028,820	999,599
Human services	1,254,213	1,531,095	470,884	593,814
Public safety	955,957	817,173	569,647	479,153
Conservation of natural resources	292,877	296,973	225,065	226,354
All others	146,382	210,696	47,448	135,126
Total	\$ 6,567,907	\$ 6,974,920	\$ 2,196,308	\$ 2,648,429

(Unaudited)

Page 9

Business-Type Activities

Revenues for Traverse County's business-type activities (see Table 2) were \$3,182,320, transfers in were \$21,549, and expenses were \$3,375,917.

The County's Funds

As Traverse County completed the year, its governmental fund balance increased by \$2,319,096. This increase was mainly due to a \$1,837,393 increase in the Jail/LEC Construction Fund, an increase of \$180,664 in the General Fund, an increase of \$204,295 in the Road and Bridge Special Revenue Fund, and an increase of \$182,121 in the Social Services Special Revenue Fund.

General Fund Budgetary Highlights

The Traverse County Board of Commissioners, over the course of the year, may amend/revise the County's budget. These budget amendments usually will fall into one of two categories: new information changing original budget estimations and greater than anticipated revenues or costs. No material revisions were made in 2006.

Actual revenues exceeded budgeted revenues by \$316,927, primarily due to increases in intergovernmental revenue. Actual expenditures exceeded budgeted expenditures by \$152,596, primarily due to excess costs for elections.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2006, Traverse County had \$31,832,576 in a broad range of capital assets, net of depreciation. The investment in capital assets includes land, buildings, bridges, highways, machinery, furniture, and equipment (see Table 4). This amount represents a net increase of \$1,493,963, or 4.9 percent, over last year.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Land	\$ 176,352	\$ 176,352	\$ 16,175	\$ 16,175	\$ 192,527	\$ 192,527
Right-of-way	395,304	305,982	-	-	395,304	305,982
Construction in progress	662,891	3,511,535	-	-	662,891	3,511,535
Buildings	1,532,307	1,585,997	4,846,168	5,079,785	6,378,475	6,665,782
Land improvements	47,069	24,055	8,545	9,880	55,614	33,935
Machinery, furniture, and equipment	1,579,651	1,217,092	116,216	136,637	1,695,867	1,353,729
Infrastructure	22,451,898	18,275,123	-	-	22,451,898	18,275,123
Totals	\$ 26,845,472	\$ 25,096,136	\$ 4,987,104	\$ 5,242,477	\$ 31,832,576	\$ 30,338,613

Debt

As of December 31, 2006, Traverse County had \$7,624,630 in long-term obligations, compared with \$5,449,074 as of December 31, 2005--an increase of 39.9 percent--as shown in Table 5.

Table 5
Outstanding Debt at Year-End

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
General obligation bonds	\$ 2,515,000	\$ -	\$ 1,110,000	\$ 1,140,000	\$ 3,625,000	\$ 1,140,000
Revenue bonds	-	-	3,670,000	3,745,000	3,670,000	3,745,000
General obligation notes	-	190,000	-	-	-	190,000
Loans	-	-	329,630	374,074	329,630	374,074
Totals	\$ 2,515,000	\$ 190,000	\$ 5,109,630	\$ 5,259,074	\$ 7,624,630	\$ 5,449,074

New debt resulted from the construction of Traverse County's new Jail/Law Enforcement Center in the amount of \$2,515,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Traverse County's elected and appointed officials considered many factors when setting the fiscal year 2007 budget, tax rates, and fees that will be charged for the business-type activities.

Traverse County has experienced a dramatic reduction in County Program Aid over the last several years.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of Traverse County's finances and to show the County's accountability for the money it receives and spends. If you have questions about this report or need additional financial information, contact Traverse County's Auditor/Treasurer, Kit Johnson, Traverse County Courthouse, 702 - 2nd Avenue North, Wheaton, Minnesota 56296.

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2006**

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and pooled investments	\$ 4,056,385	\$ 586,755	\$ 4,643,140
Investments	94,185	35,183	129,368
Taxes receivable			
Current - net	62,972	-	62,972
Prior - net	21,598	-	21,598
Special assessments receivable			
Current - net	3,425	-	3,425
Prior - net	2,787	-	2,787
Accounts receivable - net	33,955	294,745	328,700
Accrued interest receivable	12,321	-	12,321
Internal balances	42	(42)	-
Due from other governments	2,000,414	-	2,000,414
Prepaid items	14,132	11,608	25,740
Inventories	35,595	19,488	55,083
Restricted assets			
Cash and pooled investments - temporarily restricted	-	239,888	239,888
Investments	-	30,383	30,383
Residents' trust fund	-	10,342	10,342
Deferred charges	59,966	112,704	172,670
Capital assets			
Non-depreciable	1,234,547	16,175	1,250,722
Depreciable - net of accumulated depreciation	25,610,925	4,970,929	30,581,854
Total Assets	\$ 33,243,249	\$ 6,328,158	\$ 39,571,407
<u>Liabilities</u>			
Accounts payable	\$ 219,272	\$ 47,702	\$ 266,974
Salaries payable	24,217	17,901	42,118
Accrued payroll taxes	-	2,443	2,443
Contracts payable	434,818	-	434,818
Due to other governments	217,672	715	218,387
Accrued interest payable	9,338	-	9,338
Payable from restricted assets			
Interest payable	-	75,606	75,606
Residents' trust fund	-	10,342	10,342
Rent deposits	-	7,782	7,782
Long-term liabilities			
Due within one year	140,785	248,650	389,435
Due in more than one year	2,830,474	4,960,204	7,790,678
Total Liabilities	\$ 3,876,576	\$ 5,371,345	\$ 9,247,921

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

***EXHIBIT 1
(Continued)***

**STATEMENT OF NET ASSETS
DECEMBER 31, 2006**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Net Assets</u>			
Invested in capital assets - net of related debt	\$ 25,985,448	\$ (104,806)	\$ 25,880,642
Restricted for			
General government	13,964	-	13,964
Public safety	77,896	-	77,896
Conservation of natural resources	716	-	716
Highways and streets	960,305	-	960,305
Sanitation	283,664	-	283,664
Debt service	-	232,106	232,106
Unrestricted	<u>2,044,680</u>	<u>829,513</u>	<u>2,874,193</u>
Total Net Assets	<u>\$ 29,366,673</u>	<u>\$ 956,813</u>	<u>\$ 30,323,486</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>
Primary Government		
Governmental activities		
General government	\$ 1,398,162	\$ 190,773
Public safety	955,957	248,600
Highways and streets	2,520,316	290,811
Sanitation	5,785	-
Human services	1,254,213	85,788
Health	78,279	-
Culture and recreation	46,348	5,964
Conservation of natural resources	292,877	9,674
Economic development	2,142	-
Interest	13,828	-
Total governmental activities	\$ 6,567,907	\$ 831,610
Business-type activities		
Traverse Care Center	\$ 3,136,161	\$ 2,934,651
Prairieview Place	239,756	225,447
Total business-type activities	\$ 3,375,917	\$ 3,160,098
Total Primary Government	\$ 9,943,824	\$ 3,991,708

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
\$ 37,381	\$ 141,188	\$ (1,028,820)	\$ -	\$ (1,028,820)
137,710	-	(569,647)	-	(569,647)
2,333,231	41,830	145,556	-	145,556
50,255	-	44,470	-	44,470
697,541	-	(470,884)	-	(470,884)
-	-	(78,279)	-	(78,279)
42,715	-	2,331	-	2,331
58,138	-	(225,065)	-	(225,065)
-	-	(2,142)	-	(2,142)
-	-	(13,828)	-	(13,828)
\$ 3,356,971	\$ 183,018	\$ (2,196,308)	\$ -	\$ (2,196,308)
\$ 12,560	\$ -	\$ -	\$ (188,950)	\$ (188,950)
-	-	-	(14,309)	(14,309)
\$ 12,560	\$ -	\$ -	\$ (203,259)	\$ (203,259)
\$ 3,369,531	\$ 183,018	\$ (2,196,308)	\$ (203,259)	\$ (2,399,567)
		\$ 3,237,523	\$ -	\$ 3,237,523
		505,486	-	505,486
		12,566	-	12,566
		69,877	9,662	79,539
		88,588	-	88,588
		(21,549)	21,549	-
		\$ 3,892,491	\$ 31,211	\$ 3,923,702
		\$ 1,696,183	\$ (172,048)	\$ 1,524,135
		27,670,490	1,128,861	28,799,351
		\$ 29,366,673	\$ 956,813	\$ 30,323,486

This page was left blank intentionally.

FUND FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENTAL FUNDS

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	<u>General</u>	<u>Road and Bridge</u>
<u>Assets</u>		
Cash and pooled investments	\$ 921,116	\$ -
Petty cash and change funds	1,400	-
Undistributed cash in agency funds	64,044	25,908
Investments	94,185	-
Taxes receivable		
Current	35,575	16,331
Prior	12,320	4,238
Special assessments receivable		
Current	3,425	-
Prior	2,787	-
Accounts receivable	10,747	23,208
Accrued interest receivable	12,321	-
Due from other funds	163,648	1,763
Due from other governments	67,240	1,831,657
Inventories	-	35,595
Prepaid items	5,365	8,767
Total Assets	\$ 1,394,173	\$ 1,947,467

EXHIBIT 3

Social Services	Jail/LEC Construction	Nonmajor Funds	Total
\$ 533,286	\$ 2,159,272	\$ 333,549	\$ 3,947,223
100	-	-	1,500
17,226	-	484	107,662
-	-	-	94,185
10,811	-	255	62,972
4,291	-	749	21,598
-	-	-	3,425
-	-	-	2,787
-	-	-	33,955
-	-	-	12,321
15	-	7,948	173,374
101,517	-	-	2,000,414
-	-	-	35,595
-	-	-	14,132
\$ 667,246	\$ 2,159,272	\$ 342,985	\$ 6,511,143

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	<u>General</u>	<u>Road and Bridge</u>
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 84,751	\$ 95,654
Salaries payable	460	23,757
Contracts payable	-	138,632
Due to other funds	1,492	138,006
Due to other governments	26,840	151,699
Deferred revenue - unavailable	56,886	1,388,578
Total Liabilities	\$ 170,429	\$ 1,936,326
Fund Balances		
Reserved for		
Boat and water safety	\$ 13,124	\$ -
Encumbrances	-	164,153
Future plant expansion	283,664	-
Inventories	-	35,595
Missing heirs	28,754	-
Prepaid items	5,365	8,767
State-aid highway projects	-	272,507
Enhanced 911	64,772	-
HAVA	9,315	-
Unreserved, undesignated	818,750	(469,881)
Unreserved, reported in nonmajor		
Special revenue fund	-	-
Debt service fund	-	-
Capital projects fund	-	-
Total Fund Balances	\$ 1,223,744	\$ 11,141
Total Liabilities and Fund Balances	\$ 1,394,173	\$ 1,947,467

EXHIBIT 3
(Continued)

Social Services	Jail/LEC Construction	Nonmajor Funds	Total
\$ 31,721	\$ 7,146	\$ -	\$ 219,272
-	-	-	24,217
-	296,186	-	434,818
15,287	18,547	-	173,332
39,133	-	-	217,672
28,872	-	1,004	1,475,340
\$ 115,013	\$ 321,879	\$ 1,004	\$ 2,544,651
\$ -	\$ -	\$ -	\$ 13,124
-	-	-	164,153
-	-	-	283,664
-	-	-	35,595
-	-	-	28,754
-	-	-	14,132
-	-	-	272,507
-	-	-	64,772
-	-	-	9,315
552,233	1,837,393	-	2,738,495
-	-	288,398	288,398
-	-	22,049	22,049
-	-	31,534	31,534
\$ 552,233	\$ 1,837,393	\$ 341,981	\$ 3,966,492
\$ 667,246	\$ 2,159,272	\$ 342,985	\$ 6,511,143

This page was left blank intentionally.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2006**

Fund balances - total governmental funds (Exhibit 3)	\$	3,966,492
---	-----------	------------------

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.		26,845,472
--	--	------------

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		1,475,340
---	--	-----------

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.

General obligation bonds	\$	(2,515,000)	
Less: deferred issuance costs		59,966	
Add: unamortized premium		(48,838)	
Capital leases		(182,417)	
Compensated absences		(225,004)	
Accrued interest payable		(9,338)	
		<u> </u>	<u>(2,920,631)</u>

Net Assets of Governmental Activities (Exhibit 1)	\$	<u>29,366,673</u>
--	-----------	--------------------------

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>General</u>	<u>Road and Bridge</u>
Revenues		
Taxes	\$ 1,823,985	\$ 819,443
Special assessments	57,014	-
Licenses and permits	4,355	-
Intergovernmental	706,878	2,435,715
Charges for services	153,065	434,314
Gifts and contributions	6,150	-
Interest on investments	66,181	-
Miscellaneous	316,622	1,327
Total Revenues	\$ 3,134,250	\$ 3,690,799
Expenditures		
Current		
General government	\$ 1,471,042	\$ -
Public safety	966,617	-
Highways and streets	-	3,323,619
Sanitation	30,363	-
Human services	-	-
Health	78,279	-
Culture and recreation	53,527	-
Conservation of natural resources	290,363	-
Economic development	2,142	-
Intergovernmental	-	164,524
Capital outlay	-	-
Debt service		
Principal	22,700	-
Interest	4,886	-
Bond issuance costs	-	-
Total Expenditures	\$ 2,919,919	\$ 3,488,143
Excess of Revenues Over (Under) Expenditures	\$ 214,331	\$ 202,656
Other Financing Sources (Uses)		
Transfers in	\$ -	\$ -
Transfers out	(46,549)	-
Bonds issued	-	-
Premium on bonds issued	-	-
Capital lease issued	12,882	-
Total Other Financing Sources (Uses)	\$ (33,667)	\$ -
Net Change in Fund Balances	\$ 180,664	\$ 202,656
Fund Balances - January 1	1,043,080	(193,154)
Increase (decrease) in reserved for inventories	-	1,639
Fund Balances - December 31	\$ 1,223,744	\$ 11,141

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

Page 21

EXHIBIT 5

Social Services	Jail/LEC Construction	Nonmajor Funds	Total
\$ 543,808	\$ -	\$ 14,393	\$ 3,201,629
-	-	-	57,014
-	-	-	4,355
796,102	-	1,982	3,940,677
3,059	-	-	590,438
-	-	-	6,150
-	3,696	-	69,877
72,249	-	69,557	459,755
\$ 1,415,218	\$ 3,696	\$ 85,932	\$ 8,329,895
\$ -	\$ -	\$ 3,221	\$ 1,474,263
-	-	-	966,617
-	-	-	3,323,619
-	-	-	30,363
1,233,097	-	-	1,233,097
-	-	-	78,279
-	-	-	53,527
-	-	-	290,363
-	-	-	2,142
-	-	-	164,524
-	670,129	-	670,129
-	-	190,000	212,700
-	-	3,088	7,974
-	60,217	-	60,217
\$ 1,233,097	\$ 730,346	\$ 196,309	\$ 8,567,814
\$ 182,121	\$ (726,650)	\$ (110,377)	\$ (237,919)
\$ -	\$ -	\$ 25,000	\$ 25,000
-	-	-	(46,549)
-	2,515,000	-	2,515,000
-	49,043	-	49,043
-	-	-	12,882
\$ -	\$ 2,564,043	\$ 25,000	\$ 2,555,376
\$ 182,121	\$ 1,837,393	\$ (85,377)	\$ 2,317,457
370,112	-	427,358	1,647,396
-	-	-	1,639
\$ 552,233	\$ 1,837,393	\$ 341,981	\$ 3,966,492

**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, 2006**

Net change in fund balances - total governmental funds (Exhibit 5) **\$ 2,317,457**

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	\$ 1,475,340	
Deferred revenue - January 1, restated	(1,519,596)	(44,256)

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.

Expenditures for general capital assets and infrastructure	\$ 2,811,917	
Current year depreciation	(1,062,581)	1,749,336

Issuance of debt provides current financial resources to governmental funds, but increases long-term liabilities in the statement of net assets. (See Note 1.D.9.) (2,516,754)

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	\$ 22,700	
Capital notes	190,000	212,700

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	\$ (5,854)	
Change in compensated absences	(18,085)	
Change in inventories	1,639	(22,300)

Change in Net Assets of Governmental Activities (Exhibit 2) **\$ 1,696,183**

PROPRIETARY FUNDS

This page was left blank intentionally.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2006**

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 75,600	\$ 511,105	\$ 586,705
Petty cash and change funds	50	-	50
Investments	-	35,183	35,183
Accounts receivable - net	-	294,745	294,745
Inventories	1,986	17,502	19,488
Prepaid items	-	11,608	11,608
Total current assets	\$ 77,636	\$ 870,143	\$ 947,779
Restricted assets			
Cash and pooled investments	\$ 7,782	\$ 232,106	\$ 239,888
Investments	-	30,383	30,383
Residents' trust fund	-	10,342	10,342
Total restricted assets	\$ 7,782	\$ 272,831	\$ 280,613
Noncurrent assets			
Advance to other funds	\$ -	\$ 56,961	\$ 56,961
Deferred debt issuance costs	22,738	89,966	112,704
Capital assets			
Nondepreciable	-	16,175	16,175
Depreciable - net	977,148	3,993,781	4,970,929
Total noncurrent assets	\$ 999,886	\$ 4,156,883	\$ 5,156,769
Total Assets	\$ 1,085,304	\$ 5,299,857	\$ 6,385,161

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT 7
(Continued)**

**STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2006**

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 5,946	\$ 41,756	\$ 47,702
Salaries payable	-	17,901	17,901
Accrued payroll taxes	-	2,443	2,443
Compensated absences payable - current	246	93,960	94,206
Due to other funds	42	-	42
Due to other governments	715	-	715
General obligation bonds payable - current	35,000	-	35,000
Revenue bonds payable - current	-	75,000	75,000
Total current liabilities	\$ 41,949	\$ 231,060	\$ 273,009
Current liabilities payable from restricted assets			
Interest payable	\$ -	\$ 75,606	\$ 75,606
Residents' trust fund	-	10,342	10,342
Rent deposits	7,782	-	7,782
Loans payable - current	-	44,444	44,444
Total current liabilities payable from restricted assets	\$ 7,782	\$ 130,392	\$ 138,174
Noncurrent liabilities			
Advance from other funds	\$ 56,961	\$ -	\$ 56,961
Loans payable - long-term	-	285,186	285,186
General obligation bonds payable - long-term	1,069,521	-	1,069,521
Revenue bonds payable - long-term	-	3,605,497	3,605,497
Total noncurrent liabilities	\$ 1,126,482	\$ 3,890,683	\$ 5,017,165
Total Liabilities	\$ 1,176,213	\$ 4,252,135	\$ 5,428,348
<u>Net Assets</u>			
Invested in capital assets - net of related debt	\$ (104,635)	\$ (171)	\$ (104,806)
Restricted for debt service	-	232,106	232,106
Unrestricted	13,726	815,787	829,513
Total Net Assets	\$ (90,909)	\$ 1,047,722	\$ 956,813

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
Operating Revenues			
Charges for services	\$ 192,838	\$ -	\$ 192,838
Patient services revenues	-	2,874,403	2,874,403
Meals	31,198	-	31,198
Laundry	1,411	-	1,411
Miscellaneous	-	60,248	60,248
Total Operating Revenues	\$ 225,447	\$ 2,934,651	\$ 3,160,098
Operating Expenses			
Personal services	\$ 22,823	\$ 489,564	\$ 512,387
Employee benefits and payroll taxes	4,808	-	4,808
Nursing services	-	958,062	958,062
Contracted services	44,453	-	44,453
Administration and fiscal services	-	338,671	338,671
Other care-related	-	76,021	76,021
Supplies	1,937	-	1,937
Ancillary services	-	146,455	146,455
Travel	12	-	12
Telephone	754	-	754
Utilities	37,538	-	37,538
Plant operation	-	197,798	197,798
Advertising	571	-	571
Maintenance and repair	5,546	-	5,546
Insurance	14,035	-	14,035
Licenses and dues	869	-	869
Property and household	-	142,765	142,765
Laundry	-	58,450	58,450
Dietary	-	256,816	256,816
Housekeeping	-	68,942	68,942
Interest	-	181,658	181,658
Miscellaneous	3,379	-	3,379
Depreciation	46,038	220,959	266,997
Total Operating Expenses	\$ 182,763	\$ 3,136,161	\$ 3,318,924
Operating Income (Loss)	\$ 42,684	\$ (201,510)	\$ (158,826)
Nonoperating Revenues (Expenses)			
Interest income	\$ -	\$ 9,662	\$ 9,662
Gifts and contributions	-	12,560	12,560
Interest expense	(56,993)	-	(56,993)
Total Nonoperating Revenues (Expenses)	\$ (56,993)	\$ 22,222	\$ (34,771)

**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, 2006**

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
Income (Loss) Before Transfers	\$ (14,309)	\$ (179,288)	\$ (193,597)
Transfers in	21,549	-	21,549
Change in Net Assets	\$ 7,240	\$ (179,288)	\$ (172,048)
Net Assets - January 1	(98,149)	1,227,010	1,128,861
Net Assets - December 31	<u>\$ (90,909)</u>	<u>\$ 1,047,722</u>	<u>\$ 956,813</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006
Increase (Decrease) in Cash and Cash Equivalents**

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
Cash Flows from Operating Activities			
Receipts from customers and users	\$ 225,447	\$ 3,002,558	\$ 3,228,005
Payments to suppliers and employees	(137,363)	(2,754,270)	(2,891,633)
Interest paid on long-term debt	-	(182,674)	(182,674)
Other receipts and payments - net	-	60,248	60,248
Net cash provided by (used in) operating activities	\$ 88,084	\$ 125,862	\$ 213,946
Cash Flows from Noncapital Financing Activities			
Rent deposits	\$ (1,112)	\$ -	\$ (1,112)
Contributions	-	12,560	12,560
Transfers in	21,549	-	21,549
Investments	-	221	221
Net cash provided by (used in) noncapital financing activities	\$ 20,437	\$ 12,781	\$ 33,218
Cash Flows from Capital and Related Financing Activities			
Principal paid on long-term debt	\$ (29,717)	\$ (119,444)	\$ (149,161)
Interest paid on long-term debt	(56,993)	-	(56,993)
Purchases of capital assets	-	(8,661)	(8,661)
Net cash provided by (used in) capital and related financing activities	\$ (86,710)	\$ (128,105)	\$ (214,815)
Cash Flows from Investing Activities			
(Increase) decrease in noncurrent cash and investments	\$ -	\$ (12,505)	\$ (12,505)
Investment earnings received	-	9,662	9,662
Net cash provided by (used in) investing activities	\$ -	\$ (2,843)	\$ (2,843)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 21,811	\$ 7,695	\$ 29,506
Cash and Cash Equivalents at January 1	61,621	735,516	797,137
Cash and Cash Equivalents at December 31	\$ 83,432	\$ 743,211	\$ 826,643

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006
Increase (Decrease) in Cash and Cash Equivalents**

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
Cash and Cash Equivalents - Exhibit 7			
Cash and pooled investments	\$ 75,600	\$ 511,105	\$ 586,705
Petty cash and change funds	50	-	50
Restricted cash and pooled investments	7,782	232,106	239,888
Total Cash and Cash Equivalents	\$ 83,432	\$ 743,211	\$ 826,643
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$ 42,684	\$ (201,510)	\$ (158,826)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	\$ 46,038	\$ 220,959	\$ 266,997
(Increase) decrease in accounts receivable	-	128,155	128,155
(Increase) decrease in inventories	(1,204)	(6,530)	(7,734)
(Increase) decrease in deferred debt issuance costs	1,176	-	1,176
(Increase) decrease in prepaid items	-	(1,277)	(1,277)
Increase (decrease) in accounts payable	(197)	(4,025)	(4,222)
Increase (decrease) in compensated absences payable	(419)	-	(419)
Increase (decrease) in due to other funds	11	-	11
Increase (decrease) in due to other governments	(5)	-	(5)
Increase (decrease) in accrued expenses	-	(9,910)	(9,910)
Total adjustments	\$ 45,400	\$ 327,372	\$ 372,772
Net Cash Provided by (Used in) Operating Activities	\$ 88,084	\$ 125,862	\$ 213,946

FIDUCIARY FUNDS

This page was left blank intentionally.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2006**

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	<u>\$ 110,823</u>
<u>Liabilities</u>	
Due to other governments	<u>\$ 110,823</u>

This page was left blank intentionally.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006**

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, 2006. 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.

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

In the government-wide statement of net assets, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. The County first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities and different business-type activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category--governmental, proprietary, and fiduciary--are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

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

The Road and Bridge Special Revenue Fund 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 Jail/LEC Construction Capital Projects Fund is used to account for financial resources to be used for the construction of the Law Enforcement Center.

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.

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.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Traverse County considers all revenues as available if collected within 60 days after the end of the current period. Property 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**

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, 2006, 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 2006 were \$76,756.

Traverse County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission (SEC), but does operate in a manner consistent with Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7). 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, 2006, the Traverse Care Center had an allowance for doubtful accounts of \$16,000.

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**

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. In 2005, \$76,621 was capitalized as part of the building remodeling project completed during the year.

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

Assets	Years
Buildings	40
Building improvements	7 - 20
Public domain infrastructure	50
Furniture, equipment, and vehicles	5 - 15

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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.

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.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

9. Long-Term Obligations (Continued)

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances--total governmental funds and changes in net assets--governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "issuance of debt provides current financial resources to governmental funds, but increases long-term liabilities in the statement of net assets." The details of this \$2,516,754 difference are:

Debt issued	
Capital lease financing	\$ 12,882
General obligation bonds	2,515,000
Add: premium on bonds issued	49,043
Less: debt issuance costs	(60,217)
Amortization of bond premiums	(205)
Amortization of debt issuance costs	251
	<hr/>
Net Adjustment to Decrease Net Changes in Fund Balances to	
Arrive at Changes in Net Assets	<hr/> \$ 2,516,754 <hr/>

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**

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 that 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, 2006, the occupancy percentage and the percentages of residents covered by the Medicaid and Medicare programs were as follows:

Total occupancy	97.7%
Medicaid	62.6%
Medicare	4.6%

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

E. Prior Period Adjustment - Change in Allocation

Net assets at January 1, 2006, for the governmental activities were decreased by \$454,524 to correct an over allocation of bridge bonding funding from the Minnesota Department of Transportation for project number 078-598-025 in 2004. In 2004, a due from other governments was set up, offset by deferred revenue, in the Road and Bridge Special Revenue Fund. That entry has been reversed.

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

The following major fund had deficit net assets as of December 31, 2006:

Prairieview Place Enterprise Fund	<u>\$ 90,909</u>
-----------------------------------	------------------

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 heads may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level.

The following is a summary of the individual funds, which had expenditures in excess of budget for the year ended December 31, 2006:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund	\$ 2,919,919	\$ 2,767,323	\$ 152,596
Building Special Revenue Fund	3,221	-	3,221

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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	\$ 4,643,140
Investments	129,368
Restricted assets	
Cash and pooled investments	239,888
Investments	30,383
Residents' trust fund	10,342
Fiduciary funds	
Cash and pooled investments	
Agency funds	110,823
	<hr/>
Total Cash and Investments	\$ 5,163,944

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.

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 standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2006, 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;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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, 2006, 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	Moody's	23%	03/28/2019	\$ 97,180
Federal Home Loan Mortgage Corporation	AAA	Moody's	20%	06/15/2018	84,527
Total Federal Home Loan Mortgage Corporation					\$ 181,707
U.S. Treasury Strip	N/A	N/A		11/15/2008	\$ 207,673
Investment pools/mutual funds					
Federated U.S. Government Fund	AAA	S&P			\$ 31,985
MAGIC Fund					6,083
Total investment pools/mutual funds			N/A		\$ 38,068
Total investments					\$ 427,448
Deposits					4,734,846
Change funds					1,650
Total Cash and Investments					\$ 5,163,944

N/A - Not Applicable

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2006, 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	\$ 84,570
Special assessments	6,212
Accounts	33,955
Interest	12,321
Due from other governments	2,000,414
Total Governmental Activities	<u>\$ 2,137,472</u>
Business-Type Activities	
Accounts receivable	<u>\$ 294,745</u>

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

3. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 176,352	\$ -	\$ -	\$ 176,352
Right-of-way	305,982	89,322	-	395,304
Construction in progress	3,511,535	662,891	3,511,535	662,891
Total capital assets not depreciated	<u>\$ 3,993,869</u>	<u>\$ 752,213</u>	<u>\$ 3,511,535</u>	<u>\$ 1,234,547</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Governmental Activities (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Buildings	\$ 2,851,337	\$ 2,312	\$ -	\$ 2,853,649
Land improvements	34,967	26,535	-	61,502
Machinery, furniture, and equipment	3,496,792	780,852	18,610	4,259,034
Infrastructure	24,387,265	4,761,540	-	29,148,805
Total capital assets depreciated	\$ 30,770,361	\$ 5,571,239	\$ 18,610	\$ 36,322,990
Less: accumulated depreciation for				
Buildings	\$ 1,265,340	\$ 56,002	\$ -	\$ 1,321,342
Land improvements	10,912	3,521	-	14,433
Machinery, furniture, and equipment	2,279,700	418,293	18,610	2,679,383
Infrastructure	6,112,142	584,765	-	6,696,907
Total accumulated depreciation	\$ 9,668,094	\$ 1,062,581	\$ 18,610	\$ 10,712,065
Total capital assets depreciated, net	\$ 21,102,267	\$ 4,508,658	\$ -	\$ 25,610,925
Governmental Activities Capital Assets, Net	\$ 25,096,136	\$ 5,260,871	\$ 3,511,535	\$ 26,845,472

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 16,175	\$ -	\$ -	\$ 16,175
Capital assets depreciated				
Buildings	\$ 6,393,248	\$ 4,800	\$ -	\$ 6,398,048
Land improvements	43,938	-	-	43,938
Machinery, furniture, and equipment	456,268	3,861	-	460,129
Total capital assets depreciated	\$ 6,893,454	\$ 8,661	\$ -	\$ 6,902,115

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Business-Type Activities (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	\$ 1,313,463	\$ 238,417	\$ -	\$ 1,551,880
Land improvements	34,058	1,335	-	35,393
Machinery, furniture, and equipment	319,631	24,282	-	343,913
Total accumulated depreciation	\$ 1,667,152	\$ 264,034	\$ -	\$ 1,931,186
Total capital assets depreciated, net	\$ 5,226,302	\$ (255,373)	\$ -	\$ 4,970,929
Business-Type Activities Capital Assets, Net	<u>\$ 5,242,477</u>	<u>\$ (255,373)</u>	<u>\$ -</u>	<u>\$ 4,987,104</u>

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

Governmental Activities	
General government	\$ 43,650
Public safety	27,195
Highways and streets, including depreciation of infrastructure assets	968,854
Social services	18,344
Sanitation	1,957
Culture and recreation	621
Conservation of natural resources	1,960
Total Depreciation Expense - Governmental Activities	<u>\$ 1,062,581</u>
Business-Type Activities	
Traverse Care Center	\$ 217,996
Prairieview Place	46,038
Total Depreciation Expense - Business-Type Activities	<u>\$ 264,034</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2006, 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	\$ 138,006
	Social Services Special Revenue Fund	15,001
	Jail/LEC Construction Capital Projects Fund	10,599
	Prairieview Place Enterprise Fund	42
Total Due to General Fund		<u>\$ 163,648</u>
Road and Bridge Special Revenue Fund	General Fund	\$ 1,477
	Social Services Special Revenue Fund	286
Total Due to Road and Bridge Special Revenue Fund		<u>\$ 1,763</u>
Social Services Special Revenue Fund	General Fund	<u>\$ 15</u>
Building Special Revenue Fund	Jail/LEC Construction Capital Projects Fund	<u>\$ 7,948</u>
Total Due To/From Other Funds		<u><u>\$ 173,374</u></u>

Included in the amount due to General Fund from the Road and Bridge Special Revenue Fund is \$136,781 to cover a cash deficit. The other 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.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers (Continued)

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, 2006, consisted of the following:

Transfers to Building Special Revenue Fund from General Fund	\$ 25,000	Transfer of reimbursement of advance to Prime West to provide funding
Transfers to Prairieview Place Enterprise Fund from General Fund	21,549	Transfer investment income and provide operating funding
Total Interfund Transfers	\$ 46,549	

C. Liabilities

1. Payables

Payables at December 31, 2006, were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts	\$ 219,272	\$ 47,702
Salaries	24,217	17,901
Accrued payroll taxes	-	2,443
Contracts	434,818	-
Due to other governments	217,672	715
Interest	9,338	75,606
Residents' trust fund	-	10,342
Rent deposits	-	7,782
Total Payables	\$ 905,317	\$ 162,491

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Deferred Revenue

Deferred revenue as of December 31, 2006, for the County is as follows:

	<u>Deferred Unavailable</u>	<u>Deferred Unearned</u>
Taxes and special assessments	\$ 90,782	\$ -
State-aid highway allotments	1,324,263	-
Charges for services	32,488	-
Miscellaneous	10,480	-
Grants	<u>17,327</u>	<u>-</u>
Total Deferred	<u>\$ 1,475,340</u>	<u>\$ -</u>

3. Construction Commitments

The government has active construction projects as of December 31, 2006. The projects include the following:

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Governmental Activities		
Jail/LEC construction	\$ 542,031	\$ 1,904,320
Roads and bridges	<u>114,847</u>	<u>164,153</u>
Total Governmental Activities	<u>\$ 656,878</u>	<u>\$ 2,068,473</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

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, 2006, were:

	Number of Participants	Contribution
General Fund	12	\$ 49,181
Road and Bridge Special Revenue Fund	11	78,020
Social Services Special Revenue Fund	1	3,156
Traverse Care Center Enterprise Fund	10	35,361
Total		<u>\$ 165,718</u>

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.

5. Leases

Capital Leases

The County has entered into lease agreements as lessee for financing the acquisition of certain equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. These capital leases consists of the following at December 31, 2006:

Leases	Maturity	Installment	Payment Amount	Original	Balance
Governmental Activities					
Digital Video System	2009	Monthly	\$ 447	\$ 12,882	\$ 11,718
Social Services Building	2014	Semi-Annual	12,900	300,000	170,699
Total Governmental Activities Capital Leases					<u>\$ 182,417</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

5. Leases

Capital Leases (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2006, were as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2007	\$ 31,159
2008	31,159
2009	29,372
2010	25,799
2011	25,799
2012 - 2014	<u>56,970</u>
Total minimum lease payments	\$ 200,258
Less: amount representing interest	<u>(17,841)</u>
Present Value of Minimum Lease Payments	<u><u>\$ 182,417</u></u>

6. Long-Term Debt

Governmental Activities

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2006</u>
General obligation bonds					
2006 G.O. Jail Bonds	2027	\$50,000 - \$185,000	4.00 - 4.25	<u>\$ 2,515,000</u>	\$ 2,515,000
Add: unamortized premium					<u>48,838</u>
Total General Obligation Bonds					<u><u>\$ 2,563,838</u></u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

6. Long-Term Debt (Continued)

Business-Type Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2006
USDA Loan	2014	\$44,444	-	\$ 400,000	<u>\$ 329,630</u>
2005 G.O. Governmental Housing Refunding Bonds	2026	\$30,000 - \$85,000	5.00	\$ 1,190,000	\$ 1,110,000
Less: unamortized discount					<u>(5,479)</u>
Total G.O. Bonds Net					<u>\$ 1,104,251</u>
2003 G.O. Nursing Home Revenue Bonds	2033	\$75,000 - \$235,000	3.25 - 5.30	\$ 3,745,000	\$ 3,670,000
Add: unamortized premium					<u>10,497</u>
Total Revenue Bonds, Net					<u>\$ 3,680,497</u>

7. Debt Service Requirements

Debt service requirements at December 31, 2006, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2007	\$ -	\$ 68,233
2008	50,000	101,350
2009	90,000	98,550
2010	90,000	94,950
2011	95,000	91,250
2012 - 2016	530,000	395,350
2017 - 2021	655,000	277,650
2022 - 2026	820,000	128,857
2027	185,000	3,931
Total	<u>\$ 2,515,000</u>	<u>\$ 1,260,121</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

7. Debt Service Requirements (Continued)

Business-Type Activities

Year Ending December 31	General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
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	40,000	48,250	85,000	168,233
2012 - 2016	235,000	208,500	485,000	778,969
2017 - 2021	305,000	143,250	600,000	648,735
2022 - 2026	385,000	59,500	755,000	477,515
2027 - 2031	-	-	965,000	254,028
2032 - 2033	-	-	460,000	24,645
Total	<u>\$ 1,110,000</u>	<u>\$ 671,000</u>	<u>\$ 3,670,000</u>	<u>\$ 3,056,515</u>

Year Ending December 31	USDA Loan Principal
2007	\$ 44,444
2008	44,444
2009	44,444
2010	44,444
2011	44,444
2012 - 2014	<u>107,410</u>
Total	<u>\$ 329,630</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

8. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Long-term liabilities					
Bonds payable					
G.O. capital notes	\$ 190,000	\$ -	\$ 190,000	\$ -	\$ -
G.O. jail bonds	-	2,515,000	-	2,515,000	-
Unamortized issuance premium	-	49,043	205	48,838	-
Capital leases	192,235	12,882	22,700	182,417	27,420
Compensated absences	206,919	143,898	125,813	225,004	113,365
Governmental Activities Long-Term Liabilities	<u>\$ 589,154</u>	<u>\$ 2,720,823</u>	<u>\$ 338,718</u>	<u>\$ 2,971,259</u>	<u>\$ 140,785</u>

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-Type Activities					
Long-term liabilities					
Bonds payable					
General obligation refunding bonds	\$ 1,140,000	\$ -	\$ 30,000	\$ 1,110,000	\$ 35,000
Revenue bonds	3,745,000	-	75,000	3,670,000	75,000
Deferred amounts for issuance premium/discounts	5,138	-	120	5,018	-
Total bonds payable	\$ 4,890,138	\$ -	\$ 105,120	\$ 4,785,018	\$ 110,000
Loan payable	374,074	-	44,444	329,630	44,444
Compensated absences	103,112	89,559	98,465	94,206	94,206
Business-Type Activities Long-Term Liabilities	<u>\$ 5,367,324</u>	<u>\$ 89,559</u>	<u>\$ 248,029</u>	<u>\$ 5,208,854</u>	<u>\$ 248,650</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Plan Description

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

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund.

The PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The 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**

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; 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 2006. Contribution rates in the Coordinated Plan increased in 2007 to 5.75 percent. Public Employees Police and Fire Fund members are required to contribute 7.00 percent of their annual covered salary in 2006. That rate increased to 7.80 percent in 2007.

The County is required to contribute the following percentages of annual covered payroll in 2006 and 2007:

	<u>2006</u>	<u>2007</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.00	6.25
Public Employees Police and Fire Fund	10.50	11.70

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

The County's contributions for the years ending December 31, 2006, 2005, and 2004, 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
2006	\$ 194,652	\$ 18,004
2005	177,388	13,821
2004	174,500	12,664

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 \$390,000 per claim in 2006 and \$400,000 per claim in 2007. 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**

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, 2006:

Medicare	15%
Medicaid	60
Resident and Other Third-Party Payors	<u>25</u>
Total	<u>100%</u>

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**

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 statements 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 2006 was \$71,638, 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**

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**

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 on its share of the annual budget. Traverse County did not contribute any funds to the Joint Powers Board in 2006.

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**

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 2006.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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**

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 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 2006.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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 \$1,081,783, net of discount and unamortized issuance costs.

8. Subsequent Event

Alliance Pipeline Settlement

On November 2, 2006, Traverse County was sent information on a proposed settlement with Alliance Pipeline for assessment years 2004, 2005, and 2006. On April 20, 2007, the Judge of the Minnesota Tax Court signed all the necessary orders to finalize the valuation cases, and the decision resulted in a difference in valuation of the property in Traverse County. The valuation difference resulted in a tax refund including interest of \$122,161 for 2005, \$113,641 for 2006, and an abatement of \$105,504 for 2007.

This page was left blank intentionally.

REQUIRED SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 1,939,600	\$ 1,939,600	\$ 1,823,985	\$ (115,615)
Special assessments	50,000	50,000	57,014	7,014
Licenses and permits	1,940	1,940	4,355	2,415
Intergovernmental	321,033	321,033	706,878	385,845
Charges for services	167,087	167,087	153,065	(14,022)
Fines and forfeits	400	400	-	(400)
Gifts and contributions	-	-	6,150	6,150
Investment earnings	70,000	70,000	66,181	(3,819)
Miscellaneous	267,263	267,263	316,622	49,359
Total Revenues	\$ 2,817,323	\$ 2,817,323	\$ 3,134,250	\$ 316,927
Expenditures				
Current				
General government				
Commissioners	\$ 171,630	\$ 171,630	\$ 196,404	\$ (24,774)
Courts	200	200	10,993	(10,793)
Law library	9,000	9,000	9,874	(874)
County coordinator	82,491	82,491	79,944	2,547
County auditor	149,066	149,066	155,618	(6,552)
License bureau	61,812	61,812	69,385	(7,573)
County treasurer	74,554	74,554	116,669	(42,115)
County assessor	103,419	103,419	66,711	36,708
Elections	7,500	7,500	144,523	(137,023)
Accounting and auditing	35,000	35,000	50,606	(15,606)
Data processing	65,500	65,500	64,719	781
Attorney	64,642	64,642	64,791	(149)
Recorder	111,932	111,932	118,968	(7,036)
Buildings and plant	90,210	90,210	104,395	(14,185)
Maintenance	-	-	1,765	(1,765)
Veterans service officer	88,184	88,184	91,198	(3,014)
Unallocated	268,686	268,686	124,479	144,207
Total general government	\$ 1,383,826	\$ 1,383,826	\$ 1,471,042	\$ (87,216)
Public safety				
Sheriff	\$ 607,738	\$ 607,738	\$ 628,473	\$ (20,735)
Boat and water safety	3,000	3,000	1,124	1,876
Coroner	2,000	2,000	3,358	(1,358)
Enhanced 911 system	-	-	25,227	(25,227)
Probation and parole	228,498	228,498	265,673	(37,175)
Civil defense	13,729	13,729	42,762	(29,033)
Total public safety	\$ 854,965	\$ 854,965	\$ 966,617	\$ (111,652)
Sanitation				
Recycling	\$ 48,212	\$ 48,212	\$ 30,363	\$ 17,849

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Health				
Nursing service	\$ 90,638	\$ 90,638	\$ 78,279	\$ 12,359
Culture and recreation				
County fair	\$ 10,000	\$ 10,000	\$ -	\$ 10,000
Parks	11,930	11,930	16,717	(4,787)
Regional library	37,282	37,282	36,810	472
Total culture and recreation	\$ 59,212	\$ 59,212	\$ 53,527	\$ 5,685
Conservation of natural resources				
County extension	\$ 123,389	\$ 123,389	\$ 110,808	\$ 12,581
Soil and water conservation	125,939	125,939	125,939	-
Agricultural society/county fair	-	-	10,000	(10,000)
Weed control	41,967	41,967	43,616	(1,649)
Total conservation of natural resources	\$ 291,295	\$ 291,295	\$ 290,363	\$ 932
Economic development				
Community development	\$ 3,375	\$ 3,375	\$ 2,142	\$ 1,233
Debt service				
Principal	\$ 10,500	\$ 10,500	\$ 22,700	\$ (12,200)
Interest	\$ 25,300	\$ 25,300	\$ 4,886	\$ 20,414
Total Expenditures	\$ 2,767,323	\$ 2,767,323	\$ 2,919,919	\$ (152,596)
Excess of Revenues Over (Under)				
Expenditures	\$ 50,000	\$ 50,000	\$ 214,331	\$ 164,331
Other Financing Sources (Uses)				
Transfers out	\$ -	\$ -	\$ (46,549)	\$ (46,549)
Capital lease issued	-	-	12,882	12,882
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ (33,667)	\$ (33,667)
Net Change in Fund Balance	\$ 50,000	\$ 50,000	\$ 180,664	\$ 130,664
Fund Balance - January 1	1,043,080	1,043,080	1,043,080	-
Fund Balance - December 31	\$ 1,093,080	\$ 1,093,080	\$ 1,223,744	\$ 130,664

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 882,043	\$ 882,043	\$ 819,443	\$ (62,600)
Intergovernmental	4,414,641	4,414,641	2,435,715	(1,978,926)
Charges for services	140,000	140,000	434,314	294,314
Miscellaneous	85,000	85,000	1,327	(83,673)
Total Revenues	\$ 5,521,684	\$ 5,521,684	\$ 3,690,799	\$ (1,830,885)
Expenditures				
Current				
Highways and streets				
Administration	\$ 351,516	\$ 351,516	\$ 320,948	\$ 30,568
Maintenance	791,784	791,784	1,133,507	(341,723)
Construction	3,605,889	3,605,889	1,093,179	2,512,710
Equipment maintenance and shop	919,782	919,782	739,116	180,666
Materials and services for resale	30,029	30,029	36,869	(6,840)
Total highways and streets	\$ 5,699,000	\$ 5,699,000	\$ 3,323,619	\$ 2,375,381
Intergovernmental				
Highways and streets	-	-	164,524	(164,524)
Total Expenditures	\$ 5,699,000	\$ 5,699,000	\$ 3,488,143	\$ 2,210,857
Excess of Revenues Over (Under) Expenditures	\$ (177,316)	\$ (177,316)	\$ 202,656	\$ 379,972
Fund Balance - January 1	(193,154)	(193,154)	(193,154)	-
Increase (decrease) in reserved for inventories	-	-	1,639	1,639
Fund Balance - December 31	\$ (370,470)	\$ (370,470)	\$ 11,141	\$ 381,611

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 583,902	\$ 583,902	\$ 543,808	\$ (40,094)
Intergovernmental	688,884	688,884	796,102	107,218
Charges for services	-	-	3,059	3,059
Miscellaneous	27,500	27,500	72,249	44,749
Total Revenues	\$ 1,300,286	\$ 1,300,286	\$ 1,415,218	\$ 114,932
Expenditures				
Current				
Human services				
Income maintenance	\$ 338,096	\$ 338,096	\$ 475,582	\$ (137,486)
Social services	996,000	996,000	757,515	238,485
Total Expenditures	\$ 1,334,096	\$ 1,334,096	\$ 1,233,097	\$ 100,999
Excess of Revenues Over (Under)				
Expenditures	\$ (33,810)	\$ (33,810)	\$ 182,121	\$ 215,931
Fund Balance - January 1	370,112	370,112	370,112	-
Fund Balance - December 31	\$ 336,302	\$ 336,302	\$ 552,233	\$ 215,931

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2006**

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the Capital Equipment Debt Service Fund, the Capital Equipment Capital Projects Fund, and the Jail/LEC Construction 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, 2006, expenditures exceeded appropriations in the General Fund by \$152,596. These expenditures in excess of budget were funded by greater than anticipated revenues in the General Fund.

This page was left blank intentionally.

SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

**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.

This page was left blank intentionally.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Statement A-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	Building Special Revenue	Capital Equipment Debt Service	Capital Equipment Capital Projects	Total
<u>Assets</u>				
Cash and pooled investments	\$ 280,045	\$ 21,970	\$ 31,534	\$ 333,549
Undistributed cash in agency funds	405	79	-	484
Taxes receivable				
Current	255	-	-	255
Prior	1	748	-	749
Due from other funds	7,948	-	-	7,948
Total Assets	<u>\$ 288,654</u>	<u>\$ 22,797</u>	<u>\$ 31,534</u>	<u>\$ 342,985</u>
<u>Liabilities and Fund Balances</u>				
Liabilities				
Deferred revenue - unavailable	\$ 256	\$ 748	\$ -	\$ 1,004
Fund Balances				
Unreserved				
Designated for capital equipment	\$ -	\$ -	\$ 31,534	\$ 31,534
Undesignated	288,398	22,049	-	310,447
Total Fund Balances	<u>\$ 288,398</u>	<u>\$ 22,049</u>	<u>\$ 31,534</u>	<u>\$ 341,981</u>
Total Liabilities and Fund Balances	<u>\$ 288,654</u>	<u>\$ 22,797</u>	<u>\$ 31,534</u>	<u>\$ 342,985</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Statement A-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Building Special Revenue	Capital Equipment Debt Service	Capital Equipment Capital Projects	Total
Revenues				
Taxes	\$ 12,826	\$ 1,567	\$ -	\$ 14,393
Intergovernmental	1,982	-	-	1,982
Miscellaneous	69,557	-	-	69,557
Total Revenues	\$ 84,365	\$ 1,567	\$ -	\$ 85,932
Expenditures				
Current				
General government	\$ 3,221	\$ -	\$ -	\$ 3,221
Debt service				
Principal	-	190,000	-	190,000
Interest	-	3,088	-	3,088
Total Expenditures	\$ 3,221	\$ 193,088	\$ -	\$ 196,309
Excess of Revenues Over (Under) Expenditures	\$ 81,144	\$ (191,521)	\$ -	\$ (110,377)
Other Financing Sources (Uses)				
Transfers in	25,000	-	-	25,000
Net Change in Fund Balance	\$ 106,144	\$ (191,521)	\$ -	\$ (85,377)
Fund Balance - January 1	182,254	213,570	31,534	427,358
Fund Balance - December 31	\$ 288,398	\$ 22,049	\$ 31,534	\$ 341,981

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
BUILDING SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 13,782	\$ 13,782	\$ 12,826	\$ (956)
Intergovernmental	1,218	1,218	1,982	764
Miscellaneous	-	-	69,557	69,557
Total Revenues	\$ 15,000	\$ 15,000	\$ 84,365	\$ 69,365
Expenditures				
Current				
General government				
Buildings and plant	-	-	3,221	(3,221)
Excess of Revenues Over (Under)				
Expenditures	\$ 15,000	\$ 15,000	\$ 81,144	\$ 66,144
Other Financing Sources (Uses)				
Transfers in	-	-	25,000	25,000
Net Change in Fund Balance	\$ 15,000	\$ 15,000	\$ 106,144	\$ 91,144
Fund Balance - January 1	182,254	182,254	182,254	-
Fund Balance - December 31	\$ 197,254	\$ 197,254	\$ 288,398	\$ 91,144

This page was left blank intentionally.

**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.

This page was left blank intentionally.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Statement B-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 848,796	\$ 848,796	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 848,796	\$ 848,796	\$ -
<u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 4,599	\$ 514,436	\$ 498,667	\$ 20,368
<u>Liabilities</u>				
Due to other governments	\$ 4,599	\$ 514,436	\$ 498,667	\$ 20,368
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 43,263	\$ 2,627,616	\$ 2,605,093	\$ 65,786
<u>Liabilities</u>				
Due to other governments	\$ 43,263	\$ 2,627,616	\$ 2,605,093	\$ 65,786

**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, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 1,378,760	\$ 1,378,760	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 1,378,760	\$ 1,378,760	\$ -
<u>TRAVERSE COUNTY CONNECTIONS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 21,279	\$ 30,272	\$ 38,545	\$ 13,006
<u>Liabilities</u>				
Due to other governments	\$ 21,279	\$ 30,272	\$ 38,545	\$ 13,006
<u>COMMUNITIES UNITED IN PARTNERSHIP</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 10,413	\$ 1,250	\$ -	\$ 11,663
<u>Liabilities</u>				
Due to other governments	\$ 10,413	\$ 1,250	\$ -	\$ 11,663

**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, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 79,554	\$ 5,401,130	\$ 5,369,861	\$ 110,823
<u>Liabilities</u>				
Due to other governments	\$ 79,554	\$ 5,401,130	\$ 5,369,861	\$ 110,823

This page was left blank intentionally.

OTHER SCHEDULES

This page was left blank intentionally.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Schedule 5

**SCHEDULE OF DEPOSITS AND INVESTMENTS
DECEMBER 31, 2006**

	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Fair Value</u>
Cash and Pooled Investments			
Cash on hand	-	-	\$ 1,650
Non-interest bearing checking (two)	-	Continuous	440,412
Interest-bearing checking (two)	0.10	Continuous	1,586,568
Money market savings (three)	3.10 to 3.64	Continuous	569,133
Certificates of deposit (six)	3.00 to 5.00	March 20, 2007 to December 1, 2007	1,949,385
Mutual funds (two)	1.60 to 5.04	Continuous	38,068
U.S. Treasury strip	-	November 15, 2008	207,673
Federal Home Loan Mortgage Corporation (two)	4.00 to 4.25	June 15, 2018 to March 28, 2019	181,707
Broker-held money markets (two)	1.00 to 1.50	Continuous	19,256
Total Cash and Pooled Investments			<u>\$ 4,993,852</u>
Investments from Funds			
General Fund			
Certificates of deposit (two)	4.31 to 4.50	May 2, 2007 to November 16, 2007	<u>\$ 94,185</u>
Traverse Care Center Enterprise Fund			
Interest-bearing checking (two)	0.10 to 0.60	Continuous	\$ 26,363
Certificates of deposit (three)	2.00 to 4.50	May 2, 2007 to December 31, 2007	49,544
Total Traverse Care Center Enterprise Fund			<u>\$ 75,907</u>
Total Investments from Funds			<u>\$ 170,092</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Schedule 6

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Governmental Funds
<hr/>	
Shared Revenue	
State	
Highway users tax	\$ 2,304,161
Program aid	281,823
Market value credit (MVC)	184,921
Mobile home MVC	669
PERA rate reimbursement	16,482
Disparity reduction aid	18,778
Police aid	14,192
Wetland reimbursement credit	2,813
	<hr/>
Total Shared Revenue	\$ 2,823,839
<hr/>	
Reimbursement for Services	
State	
Minnesota Department of Human Services	\$ 360,216
	<hr/>
Payments	
Local	
Payments in lieu of taxes	\$ 12,566
	<hr/>
Grants	
State	
Minnesota Department of	
Revenue	\$ 210
Examining Boards	1,809
Corrections	15,267
Public Safety	75,094
Natural Resources	1,124
Human Services	244,885
Veterans Services	1,400
Water and Soil Resources Board	42,715
Office of Environmental Assistance	49,079
	<hr/>
Total State	\$ 431,583
<hr/>	
Federal	
Department of	
Agriculture	\$ 1,263
Health and Human Services	133,122
Homeland Security	36,900
Election Assistance Commission	141,188
	<hr/>
Total Federal	\$ 312,473
<hr/>	
Total State and Federal Grants	\$ 744,056
<hr/>	
Total Intergovernmental Revenue	\$ 3,940,677
	<hr/>

This page was left blank intentionally.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Schedule 7

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-3 Segregation of Duties

Due to the limited number of personnel within Traverse County, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. In addition, the County's computer systems are operating below the recommended security levels for adequate segregation of duties within the data processing function. This is not unusual in operations the size of Traverse County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

We recommend that the County's management be aware of the lack of segregation of the accounting functions and, wherever 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 staff is implementing internal control policies and procedures.

ITEMS ARISING THIS YEAR

06-1 Budget Documentation

The County Board adopted formal budgets for the General Fund and the Road and Bridge, Social Services, and Building Special Revenue Funds, but did not adopt formal budgets for the Jail/LEC Construction and Capital Equipment Capital Project Funds or the Capital

Equipment Debt Service Fund. For the Board-adopted budgets, the documentation in the Board minutes and the published budget do not reconcile to the detail in the County's financial system. Differences were noted between the approved budget and the detailed budget in the County's financial system for the General Fund and Social Services Special Revenue Fund. The County's financial system did not contain detailed budgets for the Road and Bridge and Building Special Revenue Funds.

Generally accepted accounting principles and the County Financial Accounting and Reporting Standards recommend that expenditure estimates and the annual budget be appropriated to the various operational entities within the County and that line-item budget detail by fund should be available. The appropriations constitute maximum expenditure authorizations during the fiscal year and cannot legally be exceeded unless subsequently amended by the County Board. Good budget accounting requires: (1) an annual budget adopted by every governmental unit; (2) an accounting system that provides the basis for appropriate budgetary control; and (3) a common terminology and classification that is used consistently throughout the budgets, accounts, and financial reports of each fund. The County Board should adopt an accurate budget, and it should be followed by the County. The adopted budget should be designed so that comparisons can be made between current year and budget year. Any amendments to the budget should be approved and documented in the official minutes.

The County Auditor/Treasurer is taking steps to ensure the detailed budgets in the County's financial system match the Board-approved budgets for 2007, including amendments if any.

We recommend that the County improve its budgetary accounting by verifying that amounts approved in the official minutes match the detailed budgets posted to the County's financial system. We further recommend the detailed budgets posted to the County's financial system be used for monitoring the budget and financial statement preparation.

Client's Response:

The County will verify that amounts approved in the official minutes match the detailed budgets posted to the County's financial system.

06-2 Preparation of Financial Statements

Traverse County is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the County's management. Financial statement preparation in accordance

with GAAP requires internal controls over both: (1) recording, processing, and summarizing accounting data (maintaining internal books and records); and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

Traverse County has established controls and procedures for the recording, processing, and summarizing of its accounting data used in the preparation of its financial statements.

As is the case with many small and medium-sized entities, the County has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. Accordingly, the County's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal control. This condition was caused by the County's decision that it is more cost effective to have its auditors prepare its annual basic financial statements than to incur the time and expense of obtaining the necessary training and expertise required to prepare the financial statements internally. As a result of this condition, the government lacks internal control over the preparation of financial statements in accordance with GAAP.

We recommend Traverse County obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP. If Traverse County still intends to have staff from the Office of the State Auditor assist in preparation, then at a minimum, it must identify and train individuals to obtain the expertise that can sufficiently review, understand, and approve the County's financial statements, including notes. As an alternative, the County could consider hiring an outside consultant to assist in preparing its basic financial statements.

Client's Response:

The County will continue to train employees and develop expertise to enable to County to internally prepare its annual financial statements in accordance with GAAP.

06-3 Audit Adjustments

A control deficiency exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions to prevent or detect misstatements of the financial statements on a timely basis. Statement on Auditing Standards No. 112 states that one control deficiency that shall be regarded as at

least a significant deficiency is identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls, even if management subsequently corrects the misstatement..

During our audit, we proposed numerous adjustments that resulted in significant changes to the County's financial statements. The County provides a cash general ledger along with the schedules necessary to adjust most accruals. However, audit adjustments were necessary to record additional receivables, deferred revenue, and payables found during the audit; reclassify transfers; reclassify grant and other revenues; and reclassify fund balances for reserves and designations. Audit adjustments were also necessary to adjust modified accrual financial statements to the full accrual basis for the government-wide financial statements.

Proposed audit adjustments are reviewed and approved by the appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the government's internal control.

We recommend the County establish review procedures to ensure all entries to the system including the original posting, journal entries, and tagging with accrual codes or transactions codes are done correctly. The review procedures should include any supporting schedules prepared for use in preparing the financial statements.

Client's Response:

The County will establish review procedures to ensure all entries to the system are done correctly.

PREVIOUSLY REPORTED ITEM RESOLVED

Payroll Procedures (04-1)

Traverse County did not have a system in place for reviewing and approving the time and leave records of supervisors. Not all employees signed a declaration that the payroll claim was true and correct.

Resolution

On May 15, 2007, the Traverse County Board of Commissioners adopted a new payroll reporting policy which now requires all employees to affirmatively attest to the hours or days worked by completing the approved payroll report. The policy also requires non-exempt employees to submit the form to their immediate supervisor for attestation and exempt employees to submit the form to the County Coordinator for attestation by the Chair and Vice Chair of the Board.

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 has been informed that the Bank of the West will make the necessary changes to the depository pledge agreement in the spring of 2008, thus complying with Minn. Stat. § 118A.03, subd. 4.

ITEM ARISING THIS YEAR

06-4 Cash Overdraft

The Road and Bridge Special Revenue Fund had a cash deficit of \$136,781 at December 31, 2006.

Minn. Stat. § 385.04 states that payment of expenditures may be made only if money is available in the fund for that purpose. Minn. Stat. § 385.32 provides for temporary fund transfers with the approval of the County Board and County Auditor/Treasurer.

We recommend that the County either register warrants or borrow from another fund when the cash balances are so low as to cause the account to have a cash deficit when a check is issued on that account.

Client's Response:

The County will register warrants or borrow from another fund when the cash balances are so low as to cause the account to have a cash deficit when a check is issued on that account.

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 \$90,909 at December 31, 2006. Prairieview Place had a net operating income of \$42,684. 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 decreased in 2006 due to a net loss of \$14,309, resulting from interest expense, offset with a transfer from the General Fund of \$21,549.

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.

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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

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

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

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, 2006, and have issued our report thereon dated March 20, 2008. Our report was modified to include a reference to 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. Other auditors audited the financial statements of the Traverse Care Center Enterprise Fund, as described in our report on Traverse County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Traverse County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 96-3 and 06-1 through 06-3 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Traverse County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 06-3 to be a material weakness.

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 items 04-2 and 06-4.

Also included in the Schedule of Findings and Recommendations are management practices comments and an other item for consideration. We believe these recommendations and information to be of benefit to Traverse County, and they are reported for that purpose.

Traverse County's written responses to the significant deficiencies, material weakness, and other findings identified in our audit have not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of County Commissioners, management, and others within Traverse County 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

March 20, 2008