

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

TRAVERSE COUNTY
WHEATON, MINNESOTA

YEAR ENDED DECEMBER 31, 2008

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Year Ended December 31, 2008



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

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2008

| | | | | <u>Term Expires</u> |
|----------------------------|-------------------------|------------|--|---------------------|
| Elected | | | | |
| Commissioners | | | | |
| Vice Chair | Gerald Kaus | District 1 | | January 2011 |
| Board Member | William Gibson | District 2 | | January 2009 |
| Chair | David Naatz | District 3 | | January 2011 |
| Board Member | Clarence Zimmer | District 4 | | January 2009 |
| Board Member | Jerry Deal | District 5 | | January 2011 |
| Attorney | Matthew Franzese | | | January 2011 |
| Auditor/Treasurer | Kit Johnson | | | January 2011 |
| County Recorder | LeAnn Peyton | | | January 2011 |
| Registrar of Titles | LeAnn Peyton | | | January 2011 |
| County Sheriff | Donald Montonye | | | January 2011 |
| Appointed | | | | |
| County Coordinator | Janet Raguse | | | Indefinite |
| Assessor | Lois Sumerfelt | | | January 2009 |
| County Engineer | Larry Haukos | | | May 2011 |
| Coroner | Stanley Gallagher, D.O. | | | January 2009 |
| 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 |

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Traverse County

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Traverse County, Minnesota, as of and for the year ended December 31, 2008, 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, 141 percent, and 95 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, 2008,

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 January 6, 2010, on our consideration of Traverse County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

January 6, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2008
(Unaudited)**

INTRODUCTION

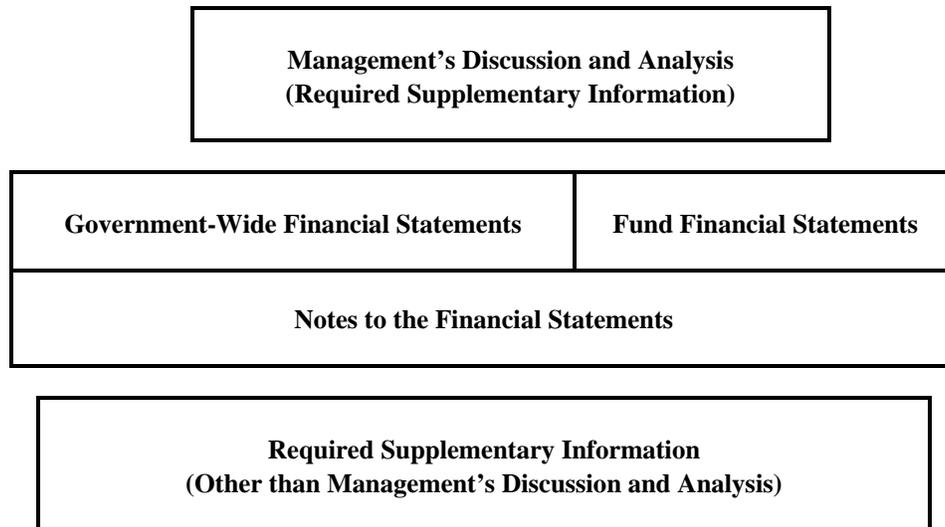
Traverse County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2008. Since this information is designed to focus on the audited year's activities, resulting changes, and currently known facts, it should be read in conjunction with a combination of the financial statements and the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' net assets are \$33,256,818, of which \$25,803,942 is invested in capital assets, net of related debt. Of the governmental activities' net assets, \$3,742,560 is restricted to specific purposes/uses by the County and \$3,710,316 is unrestricted.
- Business-type activities (Traverse Care Center and Prairieview Place) have total net assets of \$475,634, of which there is a negative balance of \$264,477 invested in capital assets, net of related debt. Of the business-type activities' net assets, \$132,362 is restricted for specific purposes/uses by the County and \$607,749 is unrestricted.
- Traverse County's net assets increased by \$2,145,771 for the year ended December 31, 2008. Of the increase, \$2,434,047 was in the governmental activities' net assets, while the business-type activities' net assets decreased by \$288,276.
- The net cost of Traverse County's governmental activities for the year ended December 31, 2008, was \$2,747,676. General revenues and other items totaling \$5,181,723 funded the net cost.
- Traverse County's governmental funds' fund balances increased by \$779,441 in 2008. This increase was mainly due to a \$5,362 decrease in the General Fund, an increase of \$328,125 in the Road and Bridge Special Revenue Fund, an increase of \$407,988 in the Social Services Special Revenue Fund, and a net increase of \$48,690 in the other nonmajor governmental funds.

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 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 | |
|---|-------------------------|----------------------|--------------------------|---------------------|--------------------------|----------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Assets | | | | | | |
| Current and other assets | \$ 8,584,670 | \$ 6,485,994 | \$ 1,052,854 | \$ 1,274,172 | \$ 9,637,524 | \$ 7,760,166 |
| Capital assets | 28,403,247 | 27,999,608 | 4,515,656 | 4,745,044 | 32,918,903 | 32,744,652 |
| Total Assets | \$ 36,987,917 | \$ 34,485,602 | \$ 5,568,510 | \$ 6,019,216 | \$ 42,556,427 | \$ 40,504,818 |
| Liabilities | | | | | | |
| Long-term liabilities | \$ 2,618,163 | \$ 2,752,375 | \$ 4,641,075 | \$ 4,895,702 | \$ 7,259,238 | \$ 7,648,077 |
| Other liabilities | 1,112,936 | 910,456 | 451,801 | 359,604 | 1,564,737 | 1,270,060 |
| Total Liabilities | \$ 3,731,099 | \$ 3,662,831 | \$ 5,092,876 | \$ 5,255,306 | \$ 8,823,975 | \$ 8,918,137 |
| Net Assets | | | | | | |
| Invested in capital assets, net of debt | \$ 25,803,942 | \$ 25,327,829 | \$ (264,477) | \$ (193,478) | \$ 25,539,465 | \$ 25,134,351 |
| Restricted | 3,742,560 | 2,879,479 | 132,362 | 256,985 | 3,874,922 | 3,136,464 |
| Unrestricted | 3,710,316 | 2,615,463 | 607,749 | 700,403 | 4,318,065 | 3,315,866 |
| Total Net Assets | \$ 33,256,818 | \$ 30,822,771 | \$ 475,634 | \$ 763,910 | \$ 33,732,452 | \$ 31,586,681 |

Traverse County's total net assets as of December 31, 2008, total \$33,732,452. The governmental activities' unrestricted net assets totaling \$3,710,316 are available to finance the day-to-day operations of the governmental activities of the County. The remaining unrestricted net assets totaling \$607,749 are available to finance the day-to-day operations of the business-type operations of the County.

Table 2
Changes in Net Assets

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|--------------------------------------|-------------------------|----------------------|--------------------------|---------------------|--------------------------|----------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Revenues | | | | | | |
| Program revenues | | | | | | |
| Fees, fines, and charges | \$ 859,354 | \$ 733,121 | \$ 3,310,194 | \$ 3,268,476 | \$ 4,169,548 | \$ 4,001,597 |
| Operating grants and contributions | 4,239,597 | 3,927,870 | 1,164 | 754 | 4,240,761 | 3,928,624 |
| Capital grants and contributions | 84,460 | 103,040 | - | 16,459 | 84,460 | 119,499 |
| General revenues | | | | | | |
| Property taxes | 4,587,461 | 3,925,088 | - | - | 4,587,461 | 3,925,088 |
| Other taxes | 28,101 | 19,738 | - | - | 28,101 | 19,738 |
| Grants, gifts, and miscellaneous | 576,161 | 668,546 | 7,820 | 13,126 | 583,981 | 681,672 |
| Total Revenues | \$ 10,375,134 | \$ 9,377,403 | \$ 3,319,178 | \$ 3,298,815 | \$ 13,694,312 | \$ 12,676,218 |
| Expenses | | | | | | |
| General government | \$ 1,504,579 | \$ 1,456,713 | \$ - | \$ - | \$ 1,504,579 | \$ 1,456,713 |
| Public safety | 1,391,332 | 1,190,652 | - | - | 1,391,332 | 1,190,652 |
| Highways and streets | 3,001,205 | 3,433,506 | - | - | 3,001,205 | 3,433,506 |
| Sanitation | 128,298 | 96,363 | - | - | 128,298 | 96,363 |
| Human services | 1,266,834 | 1,171,138 | - | - | 1,266,834 | 1,171,138 |
| Health | 85,960 | 78,005 | - | - | 85,960 | 78,005 |
| Culture and recreation | 65,705 | 54,951 | - | - | 65,705 | 54,951 |
| Conservation of natural resources | 370,671 | 320,195 | - | - | 370,671 | 320,195 |
| Economic development | 2,204 | 2,325 | - | - | 2,204 | 2,325 |
| Interest | 114,299 | 107,457 | - | - | 114,299 | 107,457 |
| Prairieview Place | - | - | 259,719 | 241,054 | 259,719 | 241,054 |
| Traverse Care Center | - | - | 3,357,735 | 3,260,664 | 3,357,735 | 3,260,664 |
| Total Expenses | \$ 7,931,087 | \$ 7,911,305 | \$ 3,617,454 | \$ 3,501,718 | \$ 11,548,541 | \$ 11,413,023 |
| Increase (Decrease) Before Transfers | \$ 2,444,047 | \$ 1,466,098 | \$ (298,276) | \$ (202,903) | \$ 2,145,771 | \$ 1,263,195 |
| Transfers | (10,000) | (10,000) | 10,000 | 10,000 | - | - |
| Increase (Decrease) in Net Assets | \$ 2,434,047 | \$ 1,456,098 | \$ (288,276) | \$ (192,903) | \$ 2,145,771 | \$ 1,263,195 |
| Net Assets - January 1 | 30,822,771 | 29,366,673 | 763,910 | 956,813 | 31,586,681 | 30,323,486 |
| Net Assets - December 31 | <u>\$ 33,256,818</u> | <u>\$ 30,822,771</u> | <u>\$ 475,634</u> | <u>\$ 763,910</u> | <u>\$ 33,732,452</u> | <u>\$ 31,586,681</u> |

The County's activities increased net assets by 6.79 percent (\$33,732,452 for 2008 compared to \$31,586,681 for 2007).

Governmental Activities

The cost of all governmental activities in 2008 was \$7,931,087. However, as shown in the Statement of Activities, the amount that taxpayers ultimately financed for these activities through County taxes and other general revenues was only \$2,747,676, because some of the cost was paid by those who directly benefited from the programs (\$859,354) or by other governments and organizations that subsidized certain programs with grants and contributions (\$4,324,057).

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 | |
|-----------------------------------|------------------------|---------------------|----------------------|---------------------|
| | 2008 | 2007 | 2008 | 2007 |
| Highways and streets | \$ 3,001,205 | \$ 3,433,506 | \$ 423,495 | \$ 468,954 |
| General government | 1,504,579 | 1,456,713 | 1,346,657 | 1,286,931 |
| Public safety | 1,391,332 | 1,190,652 | 65,205 | 533,619 |
| Human services | 1,266,834 | 1,171,138 | 378,554 | 378,358 |
| Conservation of natural resources | 370,671 | 320,195 | 307,131 | 308,601 |
| All others | 396,466 | 339,101 | 226,634 | 170,811 |
| Total | \$ 7,931,087 | \$ 7,911,305 | \$ 2,747,676 | \$ 3,147,274 |

Business-Type Activities

Revenues for Traverse County's business-type activities (see Table 2) were \$3,319,178, transfers in were \$10,000, and expenses were \$3,617,454.

The County's Funds

Upon completing the year, Traverse County's governmental fund balance increased by \$779,441. This increase was due to an increase of \$328,125 in the Road and Bridge Special Revenue Fund; an increase of \$407,988 in the Social Services Special Revenue Fund; and an increase of \$48,690 in other governmental funds, offset by a decrease of \$5,362 in the General 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 2008.

Actual revenues exceeded budgeted revenues in the General Fund by \$117,514, primarily due to intergovernmental revenues of \$243,082 over projections; special assessments of \$59,733 over projections; and interest earnings of \$35,400 over projections, offset by tax collections of \$45,485 under the projected total and miscellaneous revenues of \$193,527 under projections.

Actual expenditures exceeded budgeted expenditures in the General Fund by \$112,876, primarily due to public safety expenditures of \$128,039 over projections and conservation of natural resources expenditures of \$49,978 over projections, offset by general governmental expenditures of \$73,796 under projections.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2008, Traverse County had \$32,918,903 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 \$174,251, or 0.53 percent, over last year.

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

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|-------------------------------------|-------------------------|----------------------|--------------------------|---------------------|--------------------------|----------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Land | \$ 176,352 | \$ 176,352 | \$ 16,175 | \$ 16,175 | \$ 192,527 | \$ 192,527 |
| Right-of-way | 478,548 | 401,473 | - | - | 478,548 | 401,473 |
| Construction in progress | 90,046 | 10,000 | - | - | 90,046 | 10,000 |
| Buildings | 3,710,913 | 3,811,610 | 4,381,410 | 4,613,279 | 8,092,323 | 8,424,889 |
| Land improvements | 40,033 | 43,551 | 5,876 | 7,211 | 45,909 | 50,762 |
| Machinery, furniture, and equipment | 1,174,549 | 1,275,912 | 112,195 | 108,379 | 1,286,744 | 1,384,291 |
| Infrastructure | 22,732,806 | 22,280,710 | - | - | 22,732,806 | 22,280,710 |
| Totals | <u>\$ 28,403,247</u> | <u>\$ 27,999,608</u> | <u>\$ 4,515,656</u> | <u>\$ 4,745,044</u> | <u>\$ 32,918,903</u> | <u>\$ 32,744,652</u> |

Debt

As of December 31, 2008, Traverse County had \$7,260,740 in long-term obligations, compared with \$7,470,185 as of December 31, 2007--a decrease of 2.80 percent--as shown in Table 5.

Table 5
Outstanding Debt at Year-End

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|--------------------------|-------------------------|---------------------|--------------------------|---------------------|--------------------------|---------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| General obligation bonds | \$ 2,465,000 | \$ 2,515,000 | \$ 1,040,000 | \$ 1,075,000 | \$ 3,505,000 | \$ 3,590,000 |
| Revenue bonds | - | - | 3,515,000 | 3,595,000 | 3,515,000 | 3,595,000 |
| Loans | - | - | 240,740 | 285,185 | 240,740 | 285,185 |
| Totals | <u>\$ 2,465,000</u> | <u>\$ 2,515,000</u> | <u>\$ 4,795,740</u> | <u>\$ 4,955,185</u> | <u>\$ 7,260,740</u> | <u>\$ 7,470,185</u> |

No new debt was issued in 2008.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Traverse County's elected and appointed officials considered many factors when setting the fiscal year 2008 budget, tax levy, and fees that will be charged for the business-type activities. These factors include: decreasing state aid, increasing input costs, low fund balances, an increasing burden on Traverse County taxpayers, and a need to provide a certain level of services to Traverse County residents/taxpayers.

Traverse County's Board of Commissioners settled on a final levy of \$4,767,529, a 12.80 percent increase over the 2007 levy.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2008**

| | Governmental Activities | Business-Type Activities | Total |
|---|------------------------------------|-------------------------------------|----------------------|
| <u>Assets</u> | | | |
| Current assets | | | |
| Cash and pooled investments | \$ 4,199,490 | \$ 369,334 | \$ 4,568,824 |
| Investments | 96,266 | 35,249 | 131,515 |
| Taxes receivable | | | |
| Current - net | 78,264 | - | 78,264 |
| Prior - net | 24,989 | - | 24,989 |
| Special assessments receivable | | | |
| Current - net | 3,555 | - | 3,555 |
| Prior - net | 3,669 | - | 3,669 |
| Accounts receivable - net | 27,737 | 338,197 | 365,934 |
| Accrued interest receivable | 5,576 | 4,618 | 10,194 |
| Internal balances | 21,930 | (21,930) | - |
| Due from other governments | 3,983,904 | - | 3,983,904 |
| Prepaid items | 42,023 | 10,411 | 52,434 |
| Inventories | 43,321 | 19,332 | 62,653 |
| Restricted assets | | | |
| Cash and pooled investments - temporarily restricted | - | 127,503 | 127,503 |
| Investments | - | 39,082 | 39,082 |
| Residents' trust fund | - | 10,466 | 10,466 |
| Noncurrent assets | | | |
| Deferred charges | 53,946 | 103,620 | 157,566 |
| Investment in joint venture | - | 16,972 | 16,972 |
| Capital assets | | | |
| Non-depreciable | 744,946 | 16,175 | 761,121 |
| Depreciable - net of accumulated depreciation | 27,658,301 | 4,499,481 | 32,157,782 |
| Total Assets | \$ 36,987,917 | \$ 5,568,510 | \$ 42,556,427 |

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT 1
(Continued)**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2008**

| | Governmental Activities | Business-Type Activities | Total |
|--|------------------------------------|-------------------------------------|----------------------|
| <u>Liabilities</u> | | | |
| Current liabilities | | | |
| Accounts payable | \$ 220,474 | \$ 70,897 | \$ 291,371 |
| Salaries payable | 29,059 | 22,924 | 51,983 |
| Accrued payroll taxes | - | 3,252 | 3,252 |
| Contracts payable | 236,683 | - | 236,683 |
| Due to other governments | 276,377 | 2,635 | 279,012 |
| Accrued interest payable | 43,256 | - | 43,256 |
| Unearned revenue | 48,807 | - | 48,807 |
| Compensated absences payable - current | 145,398 | 101,005 | 246,403 |
| General obligation bonds payable - current | 90,000 | 35,000 | 125,000 |
| Revenue bonds payable - current | - | 80,000 | 80,000 |
| Leases payable - current | 22,882 | - | 22,882 |
| Loans payable - current | - | 44,444 | 44,444 |
| Payable from restricted assets | | | |
| Interest payable | - | 74,069 | 74,069 |
| Residents' trust fund | - | 10,466 | 10,466 |
| Rent deposits | - | 7,109 | 7,109 |
| Noncurrent liabilities | | | |
| Compensated absences payable | 87,806 | - | 87,806 |
| General obligation bonds payable | 2,418,934 | 1,000,087 | 3,419,021 |
| Revenue bonds payable | - | 3,444,692 | 3,444,692 |
| Leases payable | 111,423 | - | 111,423 |
| Loans payable | - | 196,296 | 196,296 |
| | \$ 3,731,099 | \$ 5,092,876 | \$ 8,823,975 |
| <u>Net Assets</u> | | | |
| Invested in capital assets - net of related debt | \$ 25,803,942 | \$ (264,477) | \$ 25,539,465 |
| Restricted for | | | |
| General government | 110,905 | - | 110,905 |
| Public safety | 161,313 | - | 161,313 |
| Highways and streets | 3,062,926 | - | 3,062,926 |
| Culture and recreation | 12,000 | - | 12,000 |
| Sanitation | 258,647 | - | 258,647 |
| Debt service | 136,769 | 120,394 | 257,163 |
| Capital acquisitions | - | 11,968 | 11,968 |
| Unrestricted | 3,710,316 | 607,749 | 4,318,065 |
| | \$ 33,256,818 | \$ 475,634 | \$ 33,732,452 |

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | Expenses | Fees, Charges, Fines, and Other |
|---------------------------------------|----------------------|--|
| <u>Functions/Programs</u> | | |
| Primary government | | |
| Governmental activities | | |
| General government | \$ 1,504,579 | \$ 131,067 |
| Public safety | 1,391,332 | 407,929 |
| Highways and streets | 3,001,205 | 149,966 |
| Sanitation | 128,298 | - |
| Human services | 1,266,834 | 97,888 |
| Health | 85,960 | - |
| Culture and recreation | 65,705 | 10,119 |
| Conservation of natural resources | 370,671 | 62,385 |
| Economic development | 2,204 | - |
| Interest | 114,299 | - |
| | \$ 7,931,087 | \$ 859,354 |
| Total governmental activities | | |
| Business-type activities | | |
| Traverse Care Center | \$ 3,357,735 | \$ 3,137,588 |
| Prairieview Place | 259,719 | 172,606 |
| | \$ 3,617,454 | \$ 3,310,194 |
| Total business-type activities | | |
| | \$ 11,548,541 | \$ 4,169,548 |
| Total Primary Government | | |

General Revenues

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

Transfers

Total general revenues and transfers

Change in net assets

Net Assets - Beginning

Net Assets - Ending

EXHIBIT 2

| Program Revenues | | Net (Expense) Revenue and Changes in Net Assets | | |
|---|---|--|---------------------------------|-----------------------|
| Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| \$ 26,855 | \$ - | \$ (1,346,657) | \$ - | \$ (1,346,657) |
| 918,198 | - | (65,205) | - | (65,205) |
| 2,343,284 | 84,460 | (423,495) | - | (423,495) |
| 55,000 | - | (73,298) | - | (73,298) |
| 790,392 | - | (378,554) | - | (378,554) |
| - | - | (85,960) | - | (85,960) |
| 104,713 | - | 49,127 | - | 49,127 |
| 1,155 | - | (307,131) | - | (307,131) |
| - | - | (2,204) | - | (2,204) |
| - | - | (114,299) | - | (114,299) |
| \$ 4,239,597 | \$ 84,460 | \$ (2,747,676) | \$ - | \$ (2,747,676) |
| \$ 1,164 | \$ - | \$ - | \$ (218,983) | \$ (218,983) |
| - | - | - | (87,113) | (87,113) |
| \$ 1,164 | \$ - | \$ - | \$ (306,096) | \$ (306,096) |
| \$ 4,240,761 | \$ 84,460 | \$ (2,747,676) | \$ (306,096) | \$ (3,053,772) |
| | | \$ 4,587,461 | \$ - | \$ 4,587,461 |
| | | 122 | - | 122 |
| | | 4,172 | - | 4,172 |
| | | 330,300 | - | 330,300 |
| | | 23,807 | - | 23,807 |
| | | 84,466 | 7,820 | 92,286 |
| | | 161,395 | - | 161,395 |
| | | (10,000) | 10,000 | - |
| | | \$ 5,181,723 | \$ 17,820 | \$ 5,199,543 |
| | | \$ 2,434,047 | \$ (288,276) | \$ 2,145,771 |
| | | 30,822,771 | 763,910 | 31,586,681 |
| | | \$ 33,256,818 | \$ 475,634 | \$ 33,732,452 |

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2008**

| | <u>General</u> | <u>Road and Bridge</u> | <u>Social Services</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|------------------------------------|----------------------------|----------------------------|----------------------------|---|---|
| <u>Assets</u> | | | | | |
| Cash and pooled investments | \$ 1,142,787 | \$ 949,726 | \$ 1,321,626 | \$ 667,551 | \$ 4,081,690 |
| Petty cash and change funds | 1,400 | - | 100 | - | 1,500 |
| Undistributed cash in agency funds | 60,590 | 33,019 | 17,843 | 4,848 | 116,300 |
| Investments | 96,266 | - | - | - | 96,266 |
| Taxes receivable | | | | | |
| Current | 37,965 | 23,888 | 12,899 | 3,512 | 78,264 |
| Prior | 13,603 | 6,322 | 4,417 | 647 | 24,989 |
| Special assessments receivable | | | | | |
| Current | 3,555 | - | - | - | 3,555 |
| Prior | 3,669 | - | - | - | 3,669 |
| Accounts receivable | 1,176 | 12,953 | 13,608 | - | 27,737 |
| Accrued interest receivable | 5,576 | - | - | - | 5,576 |
| Due from other funds | 32,205 | 5,571 | - | 7,948 | 45,724 |
| Due from other governments | 222,280 | 3,657,517 | 104,107 | - | 3,983,904 |
| Prepaid items | 35,274 | 6,749 | - | - | 42,023 |
| Inventories | - | 43,321 | - | - | 43,321 |
| Total Assets | <u>\$ 1,656,346</u> | <u>\$ 4,739,066</u> | <u>\$ 1,474,600</u> | <u>\$ 684,506</u> | <u>\$ 8,554,518</u> |

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2008**

| | <u>General</u> | <u>Road and Bridge</u> | <u>Social Services</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|----------------------------|----------------------------|---|---|
| <u>Liabilities and Fund Balances</u> | | | | | |
| Liabilities | | | | | |
| Accounts payable | \$ 138,289 | \$ 50,254 | \$ 31,931 | \$ - | \$ 220,474 |
| Salaries payable | 667 | 28,392 | - | - | 29,059 |
| Contracts payable | - | 236,683 | - | - | 236,683 |
| Due to other funds | 1,494 | 1,434 | 8,852 | 12,014 | 23,794 |
| Due to other governments | 60,752 | 151,612 | 64,013 | - | 276,377 |
| Deferred revenue | | | | | |
| Unavailable | 174,186 | 3,386,121 | 31,250 | 2,830 | 3,594,387 |
| Unearned | 2,208 | - | 46,599 | - | 48,807 |
| Compensated absences | 1,183 | 5,798 | - | - | 6,981 |
| Total Liabilities | \$ 378,779 | \$ 3,860,294 | \$ 182,645 | \$ 14,844 | \$ 4,436,562 |
| Fund Balances | | | | | |
| Reserved for | | | | | |
| Boat and water safety | \$ 13,176 | \$ - | \$ - | \$ - | \$ 13,176 |
| Debt service | - | - | - | 136,769 | 136,769 |
| Future plant expansion | 258,647 | - | - | - | 258,647 |
| Inventories | - | 43,321 | - | - | 43,321 |
| Missing heirs | 30,961 | - | - | - | 30,961 |
| Prepaid items | 35,274 | 6,749 | - | - | 42,023 |
| Enhanced 911 | 148,137 | - | - | - | 148,137 |
| HAVA | 6,052 | - | - | - | 6,052 |
| Recorder's equipment | 39,121 | - | - | - | 39,121 |
| Recorder's compliance fund | 23,709 | - | - | - | 23,709 |
| Rainbow Rider | 12,000 | - | - | - | 12,000 |
| Unreserved | | | | | |
| Undesignated | 710,490 | 828,702 | 1,291,955 | - | 2,831,147 |
| Reported in nonmajor | | | | | |
| Special revenue fund | - | - | - | 439,080 | 439,080 |
| Capital projects fund | - | - | - | 93,813 | 93,813 |
| Total Fund Balances | \$ 1,277,567 | \$ 878,772 | \$ 1,291,955 | \$ 669,662 | \$ 4,117,956 |
| Total Liabilities and Fund Balances | \$ 1,656,346 | \$ 4,739,066 | \$ 1,474,600 | \$ 684,506 | \$ 8,554,518 |

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2008**

| | | |
|--|----------------|-----------------------------|
| Fund balance - total governmental funds (Exhibit 3) | \$ | 4,117,956 |
| 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. | | 28,403,247 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. | | 3,594,387 |
| 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 | \$ (2,465,000) | |
| Less: deferred issuance costs | 53,946 | |
| Add: unamortized premiums | (43,934) | |
| Capital leases | (134,305) | |
| Compensated absences | (226,223) | |
| Accrued interest payable | (43,256) | (2,858,772) |
| Net Assets of Governmental Activities (Exhibit 1) | | <u>\$ 33,256,818</u> |

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | <u>General</u> | <u>Road and Bridge</u> | <u>Social Services</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|-----------------------------------|---------------------|----------------------------|----------------------------|---|---|
| Revenues | | | | | |
| Taxes | \$ 2,285,852 | \$ 1,405,942 | \$ 733,272 | \$ 205,520 | \$ 4,630,586 |
| Special assessments | 59,733 | - | - | - | 59,733 |
| Licenses and permits | 16,019 | - | - | - | 16,019 |
| Intergovernmental | 562,452 | 2,174,601 | 836,095 | 996 | 3,574,144 |
| Charges for services | 248,182 | 142,745 | 12,936 | - | 403,863 |
| Gifts and contributions | 4,000 | - | - | - | 4,000 |
| Investment earnings | 85,400 | - | - | - | 85,400 |
| Miscellaneous | 217,654 | 57,096 | 84,952 | 61,651 | 421,353 |
| Total Revenues | \$ 3,479,292 | \$ 3,780,384 | \$ 1,667,255 | \$ 268,167 | \$ 9,195,098 |
| Expenditures | | | | | |
| Current | | | | | |
| General government | \$ 1,407,617 | \$ - | \$ - | \$ - | \$ 1,407,617 |
| Public safety | 1,387,392 | - | - | 12,874 | 1,400,266 |
| Highways and streets | - | 3,337,861 | - | - | 3,337,861 |
| Sanitation | 124,872 | - | - | - | 124,872 |
| Human services | - | - | 1,259,267 | - | 1,259,267 |
| Health | 85,960 | - | - | - | 85,960 |
| Culture and recreation | 64,757 | - | - | - | 64,757 |
| Conservation of natural resources | 370,694 | - | - | - | 370,694 |
| Economic development | 2,204 | - | - | - | 2,204 |
| Intergovernmental | - | 166,011 | - | - | 166,011 |
| Debt service | | | | | |
| Principal | 22,474 | - | - | 50,000 | 72,474 |
| Interest | 8,684 | - | - | 105,416 | 114,100 |
| Administrative charges | - | - | - | 431 | 431 |
| Total Expenditures | \$ 3,474,654 | \$ 3,503,872 | \$ 1,259,267 | \$ 168,721 | \$ 8,406,514 |

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT 5
(Continued)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | <u>General</u> | <u>Road and Bridge</u> | <u>Social Services</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|----------------------------|----------------------------|---|---|
| Excess of Revenues Over (Under) Expenditures | \$ 4,638 | \$ 276,512 | \$ 407,988 | \$ 99,446 | \$ 788,584 |
| Other Financing Sources (Uses) | | | | | |
| Transfers in | \$ - | \$ 50,756 | \$ - | \$ - | \$ 50,756 |
| Transfers out | (10,000) | - | - | (50,756) | (60,756) |
| Total Other Financing Sources (Uses) | \$ (10,000) | \$ 50,756 | \$ - | \$ (50,756) | \$ (10,000) |
| Net Change in Fund Balance | \$ (5,362) | \$ 327,268 | \$ 407,988 | \$ 48,690 | \$ 778,584 |
| Fund Balance - January 1 | 1,282,929 | 550,647 | 883,967 | 620,972 | 3,338,515 |
| Increase (decrease) in reserved for inventories | - | 857 | - | - | 857 |
| Fund Balance - December 31 | \$ 1,277,567 | \$ 878,772 | \$ 1,291,955 | \$ 669,662 | \$ 4,117,956 |

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 778,584

Amounts reported for governmental activities in the statement of activities are different because:

In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.

| | | |
|--------------------------------|--------------------|-----------|
| Deferred revenue - December 31 | \$ 3,594,387 | |
| Deferred revenue - January 1 | <u>(2,414,351)</u> | 1,180,036 |

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the disposal increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net book value of the assets sold.

| | | |
|--|--------------------|---------|
| Expenditures for general capital assets and infrastructure | \$ 1,493,467 | |
| Net book value of assets disposed of | (47,245) | |
| Current year depreciation | <u>(1,042,583)</u> | 403,639 |

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

| | | |
|--------------------------|---------------|--------|
| Principal repayments | | |
| General obligation bonds | \$ 50,000 | |
| Capital lease | <u>22,474</u> | 72,474 |

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 | \$ 232 | |
| Change in deferred charges | (3,010) | |
| Amortization of bond premiums | 2,452 | |
| Change in compensated absences | (1,217) | |
| Change in inventories | <u>857</u> | <u>(686)</u> |

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 2,434,047

PROPRIETARY FUNDS

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2008**

| | Business-Type Activities - Enterprise Funds | | |
|---|--|---------------------------------|---------------------|
| | Prairieview Place | Traverse Care Center | Totals |
| <u>Assets</u> | | | |
| Current assets | | | |
| Cash and pooled investments | \$ 20,038 | \$ 349,246 | \$ 369,284 |
| Petty cash and change funds | 50 | - | 50 |
| Investments | - | 35,249 | 35,249 |
| Accounts receivable - net | - | 338,197 | 338,197 |
| Third-party payor settlements receivables | - | 4,618 | 4,618 |
| Inventories | 1,783 | 17,549 | 19,332 |
| Prepaid items | - | 10,411 | 10,411 |
| Total current assets | \$ 21,871 | \$ 755,270 | \$ 777,141 |
| Restricted assets | | | |
| Cash and pooled investments | \$ 7,109 | \$ 120,394 | \$ 127,503 |
| Investments | - | 39,082 | 39,082 |
| Residents' trust fund | - | 10,466 | 10,466 |
| Total restricted assets | \$ 7,109 | \$ 169,942 | \$ 177,051 |
| Noncurrent assets | | | |
| Advance to other funds | \$ - | \$ 56,961 | \$ 56,961 |
| Deferred debt issuance costs | 20,386 | 83,234 | 103,620 |
| Investment in joint venture | - | 16,972 | 16,972 |
| Capital assets | | | |
| Nondepreciable | - | 16,175 | 16,175 |
| Depreciable - net | 883,881 | 3,615,600 | 4,499,481 |
| Total noncurrent assets | \$ 904,267 | \$ 3,788,942 | \$ 4,693,209 |
| Total Assets | \$ 933,247 | \$ 4,714,154 | \$ 5,647,401 |

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT 7
(Continued)**

**STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2008**

| | Business-Type Activities - Enterprise Funds | | |
|---|--|---------------------------------|---------------------|
| | Prairieview Place | Traverse Care Center | Totals |
| <u>Liabilities</u> | | | |
| Current liabilities | | | |
| Accounts payable | \$ 1,657 | \$ 69,240 | \$ 70,897 |
| Salaries payable | - | 22,924 | 22,924 |
| Accrued payroll taxes | - | 3,252 | 3,252 |
| Compensated absences payable - current | 556 | 100,449 | 101,005 |
| Due to other funds | 21,930 | - | 21,930 |
| Due to other governments | 2,635 | - | 2,635 |
| General obligation bonds payable - current | 35,000 | - | 35,000 |
| Revenue bonds payable - current | - | 80,000 | 80,000 |
| Loans payable - current | - | 44,444 | 44,444 |
| Total current liabilities | \$ 61,778 | \$ 320,309 | \$ 382,087 |
| Current liabilities payable from restricted assets | | | |
| Interest payable | \$ - | \$ 74,069 | \$ 74,069 |
| Residents' trust fund | - | 10,466 | 10,466 |
| Rent deposits | 7,109 | - | 7,109 |
| Total current liabilities payable from restricted assets | \$ 7,109 | \$ 84,535 | \$ 91,644 |
| Noncurrent liabilities | | | |
| Advance from other funds | \$ 56,961 | \$ - | \$ 56,961 |
| Loans payable - long-term | - | 196,296 | 196,296 |
| General obligation bonds payable - long-term | 1,000,087 | - | 1,000,087 |
| Revenue bonds payable - long-term | - | 3,444,692 | 3,444,692 |
| Total noncurrent liabilities | \$ 1,057,048 | \$ 3,640,988 | \$ 4,698,036 |
| Total Liabilities | \$ 1,125,935 | \$ 4,045,832 | \$ 5,171,767 |
| <u>Net Assets</u> | | | |
| Invested in capital assets - net of related debt | \$ (130,820) | \$ (133,657) | \$ (264,477) |
| Restricted for debt service | - | 120,394 | 120,394 |
| Restricted for capital acquisitions | - | 11,968 | 11,968 |
| Unrestricted | (61,868) | 669,617 | 607,749 |
| Total Net Assets | \$ (192,688) | \$ 668,322 | \$ 475,634 |

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | Business-Type Activities - Enterprise Funds | | |
|-------------------------------------|--|---------------------------------|---------------------|
| | Prairieview Place | Traverse Care Center | Totals |
| Operating Revenues | | | |
| Charges for services | \$ 148,370 | \$ - | \$ 148,370 |
| Patient services revenues | - | 3,044,372 | 3,044,372 |
| Meals | 23,303 | - | 23,303 |
| Laundry | 933 | - | 933 |
| Miscellaneous | - | 93,216 | 93,216 |
| Total Operating Revenues | \$ 172,606 | \$ 3,137,588 | \$ 3,310,194 |
| Operating Expenses | | | |
| Personal services | \$ 23,677 | \$ 594,398 | \$ 618,075 |
| Employee benefits and payroll taxes | 5,933 | - | 5,933 |
| Nursing services | - | 961,108 | 961,108 |
| Contracted services | 29,263 | - | 29,263 |
| Administration and fiscal services | - | 326,702 | 326,702 |
| Other care-related | - | 90,479 | 90,479 |
| Supplies | 1,215 | - | 1,215 |
| Ancillary services | - | 124,702 | 124,702 |
| Travel | 109 | - | 109 |
| Telephone | 668 | - | 668 |
| Utilities | 73,609 | - | 73,609 |
| Plant operations | - | 219,482 | 219,482 |
| Advertising | 2,718 | - | 2,718 |
| Repairs and maintenance | 4,366 | - | 4,366 |
| Insurance | 15,377 | - | 15,377 |
| Licenses and dues | 449 | - | 449 |
| Postage | 115 | - | 115 |
| Property and household | - | 142,765 | 142,765 |
| Laundry | - | 67,172 | 67,172 |
| Dietary | - | 278,695 | 278,695 |
| Housekeeping | - | 68,031 | 68,031 |
| Miscellaneous | 2,035 | - | 2,035 |
| Depreciation | 46,435 | 214,322 | 260,757 |
| Total Operating Expenses | \$ 205,969 | \$ 3,087,856 | \$ 3,293,825 |
| Operating Income (Loss) | \$ (33,363) | \$ 49,732 | \$ 16,369 |

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

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**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, 2008**

| | Business-Type Activities - Enterprise Funds | | |
|---|--|---------------------------------|---------------------|
| | Prairieview Place | Traverse Care Center | Totals |
| Nonoperating Revenues (Expenses) | | | |
| Interest income | \$ 1,131 | \$ 6,689 | \$ 7,820 |
| Gifts and contributions | - | 1,164 | 1,164 |
| Interest expense | (53,750) | (176,441) | (230,191) |
| Loss on investment in joint venture | - | (93,438) | (93,438) |
| Total Nonoperating Revenues (Expenses) | \$ (52,619) | \$ (262,026) | \$ (314,645) |
| Income (Loss) Before Transfers | \$ (85,982) | \$ (212,294) | \$ (298,276) |
| Transfers in | 10,000 | - | 10,000 |
| Change in net assets | \$ (75,982) | \$ (212,294) | \$ (288,276) |
| Net Assets - January 1 | (116,706) | 880,616 | 763,910 |
| Net Assets - December 31 | \$ (192,688) | \$ 668,322 | \$ 475,634 |

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008
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 | \$ 172,606 | \$ 3,113,079 | \$ 3,285,685 |
| Payments to suppliers and employees | - | (2,857,444) | (2,857,444) |
| Payments to suppliers | (111,386) | - | (111,386) |
| Payments to employees | (29,285) | - | (29,285) |
| Additions in rent deposits | 517 | - | 517 |
| Other receipts and payments - net | - | 92,039 | 92,039 |
| Net cash provided by (used in) operating activities | \$ 32,452 | \$ 347,674 | \$ 380,126 |
| Cash Flows from Noncapital Financing Activities | | | |
| Contributions | - | 1,164 | 1,164 |
| Transfers in | 10,000 | - | 10,000 |
| Net cash provided by (used in) noncapital financing activities | \$ 10,000 | \$ 1,164 | \$ 11,164 |
| Cash Flows from Capital and Related Financing Activities | | | |
| Principal paid on long-term debt | \$ (34,717) | \$ (124,445) | \$ (159,162) |
| Interest paid on long-term debt | (53,750) | (176,441) | (230,191) |
| Investment in joint venture | - | (57,000) | (57,000) |
| Purchases of capital assets | - | (28,403) | (28,403) |
| Net cash provided by (used in) capital and related financing activities | \$ (88,467) | \$ (386,289) | \$ (474,756) |
| Cash Flows from Investing Activities | | | |
| Increase in investments | \$ - | \$ 141 | \$ 141 |
| Increase in noncurrent investments | - | 124,620 | 124,620 |
| Investment earnings received | 1,131 | 6,689 | 7,820 |
| Net cash provided by (used in) investing activities | \$ 1,131 | \$ 131,450 | \$ 132,581 |
| Net Increase (Decrease) in Cash and Cash Equivalents | \$ (44,884) | \$ 93,999 | \$ 49,115 |
| Cash and Cash Equivalents at January 1 | 72,081 | 255,247 | 327,328 |
| Cash and Cash Equivalents at December 31 | \$ 27,197 | \$ 349,246 | \$ 376,443 |

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

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008
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 | \$ 20,038 | \$ 349,246 | \$ 369,284 |
| Petty cash and change funds | 50 | - | 50 |
| Restricted cash and pooled investments | 7,109 | - | 7,109 |
| Total Cash and Cash Equivalents | <u>\$ 27,197</u> | <u>\$ 349,246</u> | <u>\$ 376,443</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities | | | |
| Operating income (loss) | <u>\$ (33,363)</u> | <u>\$ 49,732</u> | <u>\$ 16,369</u> |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities | | | |
| Depreciation and amortization | \$ 46,435 | \$ 214,322 | \$ 260,757 |
| (Increase) decrease in accounts receivable | - | 86,325 | 86,325 |
| (Increase) decrease in inventories | (182) | 245 | 63 |
| (Increase) decrease in deferred debt issuance costs | 1,176 | - | 1,176 |
| (Increase) decrease in prepaid items | - | 139 | 139 |
| Increase (decrease) in accounts payable | (6,348) | 6,528 | 180 |
| Increase (decrease) in compensated absences payable | 325 | - | 325 |
| Increase (decrease) in due to other funds | 21,905 | - | 21,905 |
| Increase (decrease) in due to other governments | 1,987 | - | 1,987 |
| Increase (decrease) in accrued expenses | - | 8,001 | 8,001 |
| Increase (decrease) in third-party payor settlements payable | - | (17,618) | (17,618) |
| Increase (decrease) in rent deposits payable | 517 | - | 517 |
| Total adjustments | <u>\$ 65,815</u> | <u>\$ 297,942</u> | <u>\$ 363,757</u> |
| Net Cash Provided by (Used in) Operating Activities | <u>\$ 32,452</u> | <u>\$ 347,674</u> | <u>\$ 380,126</u> |

FIDUCIARY FUNDS

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TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2008

| | <u>Agency</u> |
|-----------------------------|--------------------------|
| | |
| <u>Assets</u> | |
| Cash and pooled investments | \$ <u><u>131,992</u></u> |
| | |
| <u>Liabilities</u> | |
| Due to other governments | \$ <u><u>131,992</u></u> |

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008**

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, 2008. 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 County reports the following major enterprise funds:

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

The Traverse Care Center Fund is used to account for the operations of the County's 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.

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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.

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.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2008, 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 2008 were \$91,414.

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).

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.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

All receivables are shown net of an allowance for uncollectibles. At December 31, 2008, the Traverse Care Center had an allowance for doubtful accounts of \$28,000.

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 method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories in proprietary funds and at the government-wide level are recorded as expenses when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Restricted Assets

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. Capital Assets

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

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

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

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

7. Compensated Absences

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Deferred Revenue

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

9. Long-Term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as an other financing source. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Fund Equity

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

12. Third-Party Reimbursement Agreements

Medicaid

The Traverse Care Center participates in the Medicaid program administered by the Minnesota Department of Human Services. The Care Center is reimbursed under the Alternative Payment System. Reimbursement is based on the previous year's rates.

The State of Minnesota utilizes a Minimum Data Set-based resident assessment system. As a result, Medicaid and private paying residents are classified into one of 34 Resource Utilization Groups for purposes of establishing payment rates.

By Minnesota statutes, 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 statutes, 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.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

12. Third-Party Reimbursement Agreements (Continued)

Occupancy Percentages

During the year ended December 31, 2008, the occupancy percentage and the percentages of residents covered by the Medicaid and Medicare programs were as follows:

| | |
|-----------------|-------|
| Total occupancy | 91.5% |
| Medicaid | 60.8 |
| Medicare | 2.5 |

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

The following major fund had deficit net assets as of December 31, 2008:

| | |
|-----------------------------------|------------|
| Prairieview Place Enterprise Fund | \$ 192,688 |
|-----------------------------------|------------|

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 that had expenditures in excess of budget for the year ended December 31, 2008:

| | Expenditures | Budget | Excess |
|----------------------------|--------------|--------------|------------|
| General Fund | \$ 3,474,654 | \$ 3,361,778 | \$ 112,876 |
| Jail/LEC Debt Service Fund | 151,781 | 151,350 | 431 |

**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 is reported as follows:

| | |
|--------------------------------|--------------------------------|
| Primary government | |
| Cash and pooled investments | \$ 4,568,824 |
| Investments | 131,515 |
| Restricted assets | |
| Cash and pooled investments | 127,503 |
| Investments | 39,082 |
| Residents' trust fund | 10,466 |
| Fiduciary funds | |
| Cash and pooled investments | |
| Agency funds | <u>131,992</u> |
| Total Cash and Investments | <u><u>\$ 5,009,382</u></u> |

a. Deposits

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

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better or 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, 2008, the County's deposits were undercollateralized by \$295,160.

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

**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)

Concentration of Credit Risk

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

The following table presents the County's deposit and investment balances at December 31, 2008, 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 | 27% | 06/15/2018 | \$ 90,611 |
| U.S. Treasury Strip | N/A | N/A | | 08/05/2013 | \$ 202,034 |
| Investment pools/mutual funds | | | | | |
| Federated U.S. Government Fund | AAA | S&P | | | \$ 34,860 |
| MAGIC Fund | N/A | | | | 6,531 |
| Total investment pools/mutual funds | | | N/A | | \$ 41,391 |
| Total investments | | | | | \$ 334,036 |
| Deposits | | | | | 4,673,646 |
| Change funds | | | | | 1,700 |
| Total Cash and Investments | | | | | \$ 5,009,382 |

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2008, 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 | \$ 103,253 |
| Special assessments | 7,224 |
| Accounts | 27,737 |
| Interest | 5,576 |
| Due from other governments | 3,983,904 |
| Total Governmental Activities | \$ 4,127,694 |
| Business-Type Activities | |
| Accounts receivable | \$ 338,197 |

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

3. Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows:

Governmental Activities

| | Beginning Balance | Increase | Decrease | Ending Balance |
|--------------------------------------|----------------------|--------------|------------|-------------------|
| Capital assets not depreciated | | | | |
| Land | \$ 176,352 | \$ - | \$ - | \$ 176,352 |
| Right-of-way | 401,473 | 77,075 | - | 478,548 |
| Construction in progress | 10,000 | 80,046 | - | 90,046 |
| Total capital assets not depreciated | \$ 587,825 | \$ 157,121 | \$ - | \$ 744,946 |
| Capital assets depreciated | | | | |
| Buildings | \$ 5,217,233 | \$ 14,000 | \$ - | \$ 5,231,233 |
| Land improvements | 61,502 | - | - | 61,502 |
| Machinery, furniture, and equipment | 4,276,278 | 257,063 | 180,379 | 4,352,962 |
| Infrastructure | 29,568,999 | 1,065,283 | - | 30,634,282 |
| Total capital assets depreciated | \$ 39,124,012 | \$ 1,336,346 | \$ 180,379 | \$ 40,279,979 |

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Governmental Activities (Continued)

| | Beginning Balance | Increase | Decrease | Ending Balance |
|--|----------------------|---------------------|-------------------|----------------------|
| Less: accumulated depreciation for | | | | |
| Buildings | \$ 1,405,623 | \$ 114,697 | \$ - | \$ 1,520,320 |
| Land improvements | 17,951 | 3,518 | - | 21,469 |
| Machinery, furniture, and equipment | 3,000,366 | 311,181 | 133,134 | 3,178,413 |
| Infrastructure | 7,288,289 | 613,187 | - | 7,901,476 |
| | <u>\$ 11,712,229</u> | <u>\$ 1,042,583</u> | <u>\$ 133,134</u> | <u>\$ 12,621,678</u> |
| Total accumulated depreciation | | | | |
| Total capital assets depreciated, net | \$ 27,411,783 | \$ 293,763 | \$ 47,245 | \$ 27,658,301 |
| | | | | |
| Governmental Activities Capital Assets, Net | <u>\$ 27,999,608</u> | <u>\$ 450,884</u> | <u>\$ 47,245</u> | <u>\$ 28,403,247</u> |

Business-Type Activities

| | Beginning Balance | Increase | Decrease | Ending Balance |
|---|----------------------|---------------------|-------------|---------------------|
| Capital assets not depreciated | | | | |
| Land | \$ 16,175 | \$ - | \$ - | \$ 16,175 |
| Capital assets depreciated | | | | |
| Buildings | \$ 6,398,048 | \$ - | \$ - | \$ 6,398,048 |
| Land improvements | 43,938 | - | - | 43,938 |
| Machinery, furniture, and equipment | 475,916 | 28,403 | - | 504,319 |
| | <u>\$ 6,917,902</u> | <u>\$ 28,403</u> | <u>\$ -</u> | <u>\$ 6,946,305</u> |
| Total capital assets depreciated | | | | |
| Less: accumulated depreciation for | | | | |
| Buildings | \$ 1,784,769 | \$ 231,869 | \$ - | \$ 2,016,638 |
| Land improvements | 36,727 | 1,335 | - | 38,062 |
| Machinery, furniture, and equipment | 367,537 | 24,587 | - | 392,124 |
| | <u>\$ 2,189,033</u> | <u>\$ 257,791</u> | <u>\$ -</u> | <u>\$ 2,446,824</u> |
| Total accumulated depreciation | | | | |
| Total capital assets depreciated, net | \$ 4,728,869 | \$ (229,388) | \$ - | \$ 4,499,481 |
| | | | | |
| Business-Type Activities Capital Assets, Net | <u>\$ 4,745,044</u> | <u>\$ (229,388)</u> | <u>\$ -</u> | <u>\$ 4,515,656</u> |

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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

| | | |
|---|----|-----------|
| Governmental Activities | | |
| General government | \$ | 106,154 |
| Public safety | | 38,466 |
| Highways and streets, including depreciation of infrastructure assets | | 886,107 |
| Social services | | 7,482 |
| Sanitation | | 3,426 |
| Culture and recreation | | 948 |
| | | 948 |
| Total Depreciation Expense - Governmental Activities | \$ | 1,042,583 |
| | | |
| Business-Type Activities | | |
| Traverse Care Center | \$ | 211,356 |
| Prairieview Place | | 46,435 |
| | | 46,435 |
| Total Depreciation Expense - Business-Type Activities | \$ | 257,791 |

4. Investment in Joint Venture

Traverse County and the City of Wheaton entered into a joint powers agreement in June 2007 to provide home care services for residents of Traverse County and other individuals located within 30 miles of the City of Wheaton. The name of the entity is Traverse Care Center-Wheaton Community Hospital JPA, doing business as Pheasant County Home Care. Traverse Care Center and the Wheaton Community Hospital contribute equally to the costs of operation of Pheasant County Home Care and will receive any surplus equally. The Traverse Care Center Enterprise Fund accounts for its investment on the equity method. The investment balance at December 31, 2008, is as follows:

| | | |
|---|----|----------|
| Initial contribution | \$ | 95,000 |
| Traverse Care Center's share of 2007 net loss | | (41,590) |
| Current year contribution to joint venture | | 57,000 |
| Traverse Care Center's share of 2008 net loss | | (93,438) |
| | | (93,438) |
| Ending Equity in Joint Venture | \$ | 16,972 |

Financial statements for the joint venture are available from the City of Wheaton.

**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, 2008, 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 Social Services Special Revenue Fund Prairieview Place Enterprise Fund | \$ 1,434 8,841 <u>21,930</u> |
| Total due to General Fund | | <u>\$ 32,205</u> |
| Road and Bridge Special Revenue Fund | General Fund Social Services Special Revenue Fund Other governmental funds | \$ 1,494 11 <u>4,066</u> |
| Total due to Road and Bridge Special Revenue Fund | | <u>\$ 5,571</u> |
| Building Special Revenue Fund | Jail/LEC Construction Capital Projects Fund | <u>\$ 7,948</u> |
| Total Due To/From Other Funds | | <u><u>\$ 45,724</u></u> |

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

2. Advances From/To Other Funds

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

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

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

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2008, consisted of the following:

| | | |
|---|-----------|--|
| Transfers to Road and Bridge Special Revenue Fund from other governmental funds | \$ 50,756 | Transfer balances to close capital projects and debt service capital equipment funds |
| Transfers to Prairieview Place Enterprise Fund from General Fund | 10,000 | Transfer investment income and provide operating funding |
| Total Interfund Transfers | \$ 60,756 | |

C. Liabilities

1. Payables

Payables at December 31, 2008, were as follows:

| | Governmental Activities | Business-Type Activities |
|--------------------------|----------------------------|-----------------------------|
| Accounts | \$ 220,474 | \$ 70,897 |
| Salaries | 29,059 | 22,924 |
| Accrued payroll taxes | - | 3,252 |
| Contracts | 236,683 | - |
| Due to other governments | 276,377 | 2,635 |
| Interest | 43,256 | 74,069 |
| Residents' trust fund | - | 10,466 |
| Rent deposits | - | 7,109 |
| Total Payables | \$ 805,849 | \$ 191,352 |

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Deferred Revenue

Deferred revenue as of December 31, 2008, for the County is as follows:

| | <u>Deferred Unavailable</u> | <u>Deferred Unearned</u> |
|-------------------------------|---------------------------------|------------------------------|
| Taxes and special assessments | \$ 79,393 | \$ - |
| State-aid highway allotments | 3,192,023 | - |
| Charges for services | 53,345 | - |
| Grants | 139,982 | 48,807 |
| Interest | 5,576 | - |
| Other | 124,068 | - |
| | <u>\$ 3,594,387</u> | <u>\$ 48,807</u> |
| Total Deferred | | |

3. Construction Commitments

The government has active construction projects as of December 31, 2008. The projects include the following:

| | <u>Spent-to-Date</u> | <u>Remaining Commitment</u> |
|-------------------------|----------------------|---------------------------------|
| Governmental Activities | | |
| Roads and bridges | <u>\$ 692,789</u> | <u>\$ 424,192</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, 2008, were:

| | Number of Participants | Contribution |
|--------------------------------------|---------------------------|--------------|
| General Fund | 17 | \$ 90,557 |
| Road and Bridge Special Revenue Fund | 13 | 109,100 |
| Social Services Special Revenue Fund | 3 | 14,639 |
| Traverse Care Center Enterprise Fund | 12 | 50,264 |
| Total | | \$ 264,560 |

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 consist of the following at December 31, 2008:

| Leases | Maturity | Installment | Payment Amount | Original | Balance |
|---|----------|-------------|-------------------|-----------|------------|
| Governmental Activities | | | | | |
| Digital video system | 2009 | Monthly | \$ 447 | \$ 12,882 | \$ 3,779 |
| Social Services building | 2014 | Semi-Annual | 12,900 | 300,000 | 130,526 |
| Total Governmental Activities Capital Leases | | | | | \$ 134,305 |

**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, 2008, were as follows:

| Year Ending December 31 | Governmental Activities |
|---|----------------------------|
| 2009 | \$ 29,818 |
| 2010 | 25,799 |
| 2011 | 25,799 |
| 2012 | 25,799 |
| 2013 | 25,799 |
| 2014 | 25,060 |
| Total minimum lease payments | \$ 158,074 |
| Less: amount representing interest | (23,769) |
| Present Value of Minimum Lease Payments | \$ 134,305 |

6. Long-Term Debt

Governmental Activities

| Type of Indebtedness | Final Maturity | Installment Amounts | Interest Rate (%) | Original Issue Amount | Outstanding Balance December 31, 2008 |
|--------------------------------|-------------------|-------------------------|-------------------------|-----------------------------|--|
| General obligation bonds | | | | | |
| 2006 G.O. Jail Bonds | 2027 | \$50,000 - \$185,000 | 4.00 - 4.25 | \$ 2,515,000 | \$ 2,465,000 |
| Add: unamortized premium | | | | | 43,934 |
| Total General Obligation Bonds | | | | | \$ 2,508,934 |

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

6. Long-Term Debt (Continued)

Business-Type 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, 2008</u> |
|--|-----------------------|----------------------------|--------------------------|------------------------------|--|
| USDA Loan | 2014 | \$44,444 | - | \$ 400,000 | <u>\$ 240,740</u> |
| 2005 G.O. Governmental Housing Refunding Bonds | 2026 | \$30,000 - \$85,000 | 5.00 | \$ 1,190,000 | \$ 1,040,000 |
| Less: unamortized discount | | | | | <u>(4,913)</u> |
| Total G.O. Bonds, Net | | | | | <u>\$ 1,035,087</u> |
| 2003 G.O. Nursing Home Revenue Bonds | 2033 | \$75,000 - \$235,000 | 3.25 - 5.30 | \$ 3,745,000 | \$ 3,515,000 |
| Add: unamortized premium | | | | | <u>9,692</u> |
| Total Revenue Bonds, Net | | | | | <u>\$ 3,524,692</u> |

7. Debt Service Requirements

Debt service requirements at December 31, 2008, were as follows:

Governmental Activities

| <u>Year Ending December 31</u> | <u>General Obligation Bonds</u> | |
|--------------------------------|---------------------------------|---------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2009 | \$ 90,000 | \$ 98,550 |
| 2010 | 90,000 | 94,950 |
| 2011 | 95,000 | 91,250 |
| 2012 | 100,000 | 87,350 |
| 2013 | 100,000 | 83,350 |
| 2014 - 2018 | 575,000 | 351,250 |
| 2019 - 2023 | 715,000 | 222,850 |
| 2024 - 2027 | 700,000 | 60,988 |
| Total | <u>\$ 2,465,000</u> | <u>\$ 1,090,538</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 |
| 2009 | \$ 35,000 | \$ 52,000 | \$ 80,000 | \$ 174,818 |
| 2010 | 40,000 | 50,250 | 85,000 | 171,717 |
| 2011 | 40,000 | 48,250 | 85,000 | 168,233 |
| 2012 | 45,000 | 46,250 | 90,000 | 164,423 |
| 2013 | 45,000 | 44,000 | 95,000 | 160,260 |
| 2014 - 2018 | 260,000 | 184,500 | 525,000 | 735,682 |
| 2019 - 2023 | 335,000 | 112,000 | 655,000 | 585,576 |
| 2024 - 2028 | 240,000 | 24,500 | 835,000 | 394,942 |
| 2029 - 2033 | - | - | 1,065,000 | 147,012 |
| Total | \$ 1,040,000 | \$ 561,750 | \$ 3,515,000 | \$ 2,702,663 |

| Year Ending December 31 | USDA Loan Principal |
|----------------------------|------------------------|
| 2009 | \$ 44,444 |
| 2010 | 44,444 |
| 2011 | 44,444 |
| 2012 | 44,444 |
| 2013 | 44,444 |
| 2014 | 18,520 |
| Total | \$ 240,740 |

**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, 2008, was as follows:

Governmental Activities

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|------------------------------|------------------------------|-------------------|-------------------|---------------------------|--------------------------------|
| Governmental Activities | | | | | |
| Long-term liabilities | | | | | |
| G.O. jail bonds payable | \$ 2,515,000 | \$ - | \$ 50,000 | \$ 2,465,000 | \$ 90,000 |
| Unamortized issuance premium | 46,386 | - | 2,452 | 43,934 | - |
| Capital leases | 156,779 | - | 22,474 | 134,305 | 22,882 |
| Compensated absences | <u>225,006</u> | <u>184,061</u> | <u>175,863</u> | <u>233,204</u> | <u>145,398</u> |
| Governmental Activities | | | | | |
| Long-Term Liabilities | <u>\$ 2,943,171</u> | <u>\$ 184,061</u> | <u>\$ 250,789</u> | <u>\$ 2,876,443</u> | <u>\$ 258,280</u> |

Business-Type Activities

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|----------------------------|------------------------------|------------------|-------------------|---------------------------|--------------------------------|
| Business-Type Activities | | | | | |
| Long-term liabilities | | | | | |
| Bonds payable | | | | | |
| General obligation | | | | | |
| refunding bonds | \$ 1,075,000 | \$ - | \$ 35,000 | \$ 1,040,000 | \$ 35,000 |
| Revenue bonds | 3,595,000 | - | 80,000 | 3,515,000 | 80,000 |
| Deferred amounts for | | | | | |
| issuance premium/discounts | <u>4,899</u> | <u>-</u> | <u>120</u> | <u>4,779</u> | <u>-</u> |
| Total bonds payable | \$ 4,674,899 | \$ - | \$ 115,120 | \$ 4,559,779 | \$ 115,000 |
| Loan payable | 285,185 | - | 44,445 | 240,740 | 44,444 |
| Compensated absences | <u>95,062</u> | <u>96,214</u> | <u>90,271</u> | <u>101,005</u> | <u>101,005</u> |
| Business-Type Activities | | | | | |
| Long-Term Liabilities | <u>\$ 5,055,146</u> | <u>\$ 96,214</u> | <u>\$ 249,836</u> | <u>\$ 4,901,524</u> | <u>\$ 260,449</u> |

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description

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

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. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. 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 9.1 and 6.0 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members were required to contribute 8.6 percent of their annual covered

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

salary in 2008. That rate increased to 9.4 percent in 2009. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2008 and 2009:

| | 2008 | 2009 |
|---------------------------------------|--------|--------|
| Public Employees Retirement Fund | | |
| Basic Plan members | 11.78% | 11.78% |
| Coordinated Plan members | 6.50 | 6.75 |
| Public Employees Police and Fire Fund | 12.90 | 14.10 |
| Public Employees Correctional Fund | 8.75 | 8.75 |

The County's contributions for the years ending December 31, 2008, 2007, and 2006, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

| | 2008 | 2007 | 2006 |
|---------------------------------------|------------|------------|------------|
| Public Employees Retirement Fund | \$ 205,933 | \$ 202,631 | \$ 194,652 |
| Public Employees Police and Fire Fund | 23,166 | 21,745 | 18,004 |
| Public Employees Correctional Fund | 29,318 | 11,420 | N/A |

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

B. Defined Contribution Plan

One Commissioner of Traverse County is covered by the Public Employees Defined Contribution Plan, a multiple-employer, deferred compensation plan administered by PERA in accordance with Minn. Stat. ch. 353D. The plan is established and administered in accordance with Minn. Stat. ch. 353D, which may be amended by the State Legislature. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans

B. Defined Contribution Plan (Continued)

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2008, were:

| | <u>Employee</u> | <u>Employer</u> |
|-------------------------------|-----------------|-----------------|
| Contribution amount | \$ 696 | \$ 696 |
| Percentage of covered payroll | 5% | 5% |

Required contribution rates were 5.00 percent.

5. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

5. Risk Management (Continued)

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 \$410,000 per claim in 2008 and \$430,000 per claim in 2009. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

6. 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, 2008:

| | |
|---------------------------------------|-------------|
| Medicare | 17% |
| Medicaid | 36 |
| Resident and other third-party payors | <u>47</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.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

A. Claims and Litigation (Continued)

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

B. Residents' Trust Deposits

According to the terms of the admissions agreement, the Traverse Care Center is the trustee of the resident funds. The funds are disbursed at the direction of the resident for personal items. These funds are recorded on the 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 2008 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 Public Health 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 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 in 2008.

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

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

West Central Area Agency on Aging

The West Central Area Agency on Aging was established June 2, 1982, by a joint powers agreement among Becker, Clay, Douglas, Grant, Otter Tail, Pope, Stevens, Traverse, and Wilkin Counties. The agreement was established to administer all aspects of the Older Americans Act by providing programs to meet the needs of the elderly in the nine-county area. Each county may be assessed a proportional share of 25 percent of the administrative costs incurred in carrying out this agreement. Each county's proportional share of this 25 percent of the administrative costs will be based upon the number of persons age 60 or older living within that county.

Any county may withdraw by providing notice to the chair of the Board 90 days prior to the beginning of the fiscal year. The chair shall forward a copy to each of the counties. Withdrawal shall not act to discharge any liability incurred or chargeable to any county before the effective date of withdrawal.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

West Central Area Agency on Aging (Continued)

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

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

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

Prime West Central County-Based Purchasing Initiative

The Prime West Central County-Based Purchasing Initiative was established in December 1998 by a joint powers agreement among Traverse County and 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.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Prime West Central County-Based Purchasing Initiative (Continued)

Financing is provided by medical assistance and general assistance medical care payments from the Minnesota Department of Human Services, initial start-up loans from the member counties, and by proportional contributions from member counties, if necessary, to cover operational costs. The County did not contribute any funds in 2006.

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

Central Minnesota Regional Radio Board

The Central Minnesota Regional Radio Board Joint Powers Board was established June 5, 2007, between Traverse County, the City of Wheaton, and eleven other counties under the authority of Minn. Stat. §§ 471.59 and 403.39. The purpose of the agreement is to formulate a regional radio board to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER).

Control is vested in a Joint Powers Board consisting of one County Commissioner and one City Council member for each party to the agreement. The members representing counties and cities shall be appointed by their respective governing bodies for the membership of that governing body. In addition, voting members of the Board include a member of the Central Minnesota Regional Advisory Committee, a member of the Central Minnesota Regional Radio System User Committee, and a member of the Owners and Operators Committee.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Central Minnesota Regional Radio Board (Continued)

Traverse County did not contribute any funds to the Joint Powers in 2008. Complete financial information can be obtained from Traverse County at:

Traverse County
702 - 2nd Avenue North
Wheaton, Minnesota 56301

Supporting Hands Nurse Family Partnership Board

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

Complete financial information can be obtained from:

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

D. Jointly-Governed Organizations

Western Area City/County Co-Op

Traverse County and 24 other cities and counties entered into a joint powers agreement to establish the Western Area City/County Co-Op (WACCO) Joint Powers Board, effective September 5, 1995, and empowered under Minn. Stat. § 471.59. The purpose of the Board is to establish a resource network that identifies common needs of the individual governmental units and reduces the financial burden on each of its members through the cooperative sharing of existing resources. The management and control of WACCO shall be vested in a Board of Directors composed of a representative appointed by each member city and county.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

District IV Transportation Planning

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

Traverse County Connections

Traverse County Connections was established in 1999 under the authority of Minn. Stat. §§ 124D.23 and 245.491. Traverse County Connections was formed as a children's mental health and family services collaborative for the purpose of providing coordinated children and family services and to create an integrated system of services for children and families with multiple and special needs. This collaborative includes Traverse County Social Services, Stevens-Traverse Public Health, Wheaton Public Schools, Browns Valley Public Schools, Traverse County Court Services, the Life Center, West Central Minnesota Community Action, and Prairie Community Services.

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

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations

Traverse County Connections (Continued)

Financing is provided by state and federal grants and contributions from the member parties. Traverse County, in an 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 2008.

E. Related Organization

Traverse County Housing and Redevelopment Authority (HRA)

The Traverse County HRA has its own governing board appointed by the Traverse County Board of Commissioners. The County's accountability for the organization does not extend beyond making the appointments. In 2005, the HRA issued \$1,190,000 of General Obligation Governmental Housing Refunding Bonds on behalf of Traverse County, which is responsible for making the payments. The balance of this debt outstanding is \$1,035,087, net of discount and unamortized issuance costs.

REQUIRED SUPPLEMENTARY INFORMATION

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---------------------------------|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 2,331,337 | \$ 2,331,337 | \$ 2,285,852 | \$ (45,485) |
| Special assessments | - | - | 59,733 | 59,733 |
| Licenses and permits | 9,290 | 9,290 | 16,019 | 6,729 |
| Intergovernmental | 319,370 | 319,370 | 562,452 | 243,082 |
| Charges for services | 238,600 | 238,600 | 248,182 | 9,582 |
| Fines and forfeits | 2,000 | 2,000 | - | (2,000) |
| Gifts and contributions | - | - | 4,000 | 4,000 |
| Investment earnings | 50,000 | 50,000 | 85,400 | 35,400 |
| Miscellaneous | 411,181 | 411,181 | 217,654 | (193,527) |
| Total Revenues | \$ 3,361,778 | \$ 3,361,778 | \$ 3,479,292 | \$ 117,514 |
| Expenditures | | | | |
| Current | | | | |
| General government | | | | |
| Commissioners | \$ 191,932 | \$ 191,932 | \$ 194,343 | \$ (2,411) |
| Courts | 200 | 200 | 11,717 | (11,517) |
| Law library | 9,000 | 9,000 | 9,929 | (929) |
| County coordinator | 92,269 | 92,269 | 94,318 | (2,049) |
| County auditor | 211,919 | 211,919 | 217,936 | (6,017) |
| License bureau | 71,761 | 71,761 | 89,120 | (17,359) |
| County treasurer | - | - | 487 | (487) |
| County assessor | 127,634 | 127,634 | 129,305 | (1,671) |
| Elections | 17,000 | 17,000 | 27,409 | (10,409) |
| Accounting and auditing | 36,500 | 36,500 | 62,049 | (25,549) |
| Data processing | 58,000 | 58,000 | 62,196 | (4,196) |
| Attorney | 73,376 | 73,376 | 75,939 | (2,563) |
| Recorder | 140,505 | 140,505 | 140,611 | (106) |
| Buildings and plant | 141,805 | 141,805 | 176,254 | (34,449) |
| Veterans service officer | 52,488 | 52,488 | 54,920 | (2,432) |
| Unallocated | 257,024 | 257,024 | 61,084 | 195,940 |
| Total general government | \$ 1,481,413 | \$ 1,481,413 | \$ 1,407,617 | \$ 73,796 |
| Public safety | | | | |
| Sheriff | \$ 380,654 | \$ 380,654 | \$ 415,190 | \$ (34,536) |
| Boat and water | 3,000 | 3,000 | 12,180 | (9,180) |
| Coroner | 4,000 | 4,000 | 1,872 | 2,128 |
| Enhanced 911 system | 25,002 | 262,009 | 358,255 | (96,246) |
| Jail | 478,015 | 241,008 | 272,693 | (31,685) |
| Probation officer | 306,872 | 306,872 | 270,782 | 36,090 |
| Civil defense | 61,810 | 61,810 | 56,420 | 5,390 |
| Total public safety | \$ 1,259,353 | \$ 1,259,353 | \$ 1,387,392 | \$ (128,039) |

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

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

***Schedule 1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|--|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Expenditures | | | | |
| Current (Continued) | | | | |
| Sanitation | | | | |
| Solid waste | \$ 107,209 | \$ 107,209 | \$ 93,968 | \$ 13,241 |
| Recycling | - | - | 30,904 | (30,904) |
| Total sanitation | \$ 107,209 | \$ 107,209 | \$ 124,872 | \$ (17,663) |
| Health | | | | |
| Nursing service | \$ 90,638 | \$ 90,638 | \$ 78,160 | \$ 12,478 |
| Transportation | - | - | 7,800 | (7,800) |
| Total health | \$ 90,638 | \$ 90,638 | \$ 85,960 | \$ 4,678 |
| Culture and recreation | | | | |
| County fair | \$ 10,000 | \$ 10,000 | \$ 10,000 | \$ - |
| Parks | 6,306 | 6,306 | 16,364 | (10,058) |
| Regional library | 48,843 | 48,843 | 38,393 | 10,450 |
| Total culture and recreation | \$ 65,149 | \$ 65,149 | \$ 64,757 | \$ 392 |
| Conservation of natural resources | | | | |
| County extension | \$ 133,336 | \$ 133,336 | \$ 131,044 | \$ 2,292 |
| Soil and water conservation | 140,779 | 140,779 | 190,504 | (49,725) |
| Weed control | 46,601 | 46,601 | 49,146 | (2,545) |
| Total conservation of natural resources | \$ 320,716 | \$ 320,716 | \$ 370,694 | \$ (49,978) |
| Economic development | | | | |
| Community development | \$ 3,500 | \$ 3,500 | \$ 2,204 | \$ 1,296 |
| Debt service | | | | |
| Principal | \$ 10,500 | \$ 10,500 | \$ 22,474 | \$ (11,974) |
| Interest | \$ 23,300 | \$ 23,300 | \$ 8,684 | \$ 14,616 |
| Total Expenditures | \$ 3,361,778 | \$ 3,361,778 | \$ 3,474,654 | \$ (112,876) |

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Excess of Revenues Over (Under) Expenditures | \$ - | \$ - | \$ 4,638 | \$ 4,638 |
| Other Financing Sources (Uses) | | | | |
| Transfers out | - | - | (10,000) | (10,000) |
| Net Change in Fund Balance | \$ - | \$ - | \$ (5,362) | \$ (5,362) |
| Fund Balance - January 1 | <u>1,282,929</u> | <u>1,282,929</u> | <u>1,282,929</u> | <u>-</u> |
| Fund Balance - December 31 | <u>\$ 1,282,929</u> | <u>\$ 1,282,929</u> | <u>\$ 1,277,567</u> | <u>\$ (5,362)</u> |

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|--|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 1,454,935 | \$ 1,454,935 | \$ 1,405,942 | \$ (48,993) |
| Intergovernmental | 6,023,508 | 6,023,508 | 2,174,601 | (3,848,907) |
| Charges for services | 140,000 | 140,000 | 142,745 | 2,745 |
| Miscellaneous | 85,000 | 85,000 | 57,096 | (27,904) |
| Total Revenues | \$ 7,703,443 | \$ 7,703,443 | \$ 3,780,384 | \$ (3,923,059) |
| Expenditures | | | | |
| Current | | | | |
| Highways and streets | | | | |
| Administration | \$ 523,140 | \$ 523,140 | \$ 507,475 | \$ 15,665 |
| Maintenance | 844,147 | 844,147 | 632,778 | 211,369 |
| Construction | 3,987,140 | 3,987,140 | 1,388,364 | 2,598,776 |
| Equipment maintenance and shop | 1,013,334 | 1,013,334 | 769,512 | 243,822 |
| Materials and services for resale | 35,239 | 35,239 | 39,732 | (4,493) |
| Total highways and streets | \$ 6,403,000 | \$ 6,403,000 | \$ 3,337,861 | \$ 3,065,139 |
| Intergovernmental | | | | |
| Highways and streets | - | - | 166,011 | (166,011) |
| Total Expenditures | \$ 6,403,000 | \$ 6,403,000 | \$ 3,503,872 | \$ 2,899,128 |
| Excess of Revenues Over (Under) Expenditures | \$ 1,300,443 | \$ 1,300,443 | \$ 276,512 | \$ (1,023,931) |
| Other Financing Sources (Uses) | | | | |
| Transfers in | - | - | 50,756 | 50,756 |
| Net Change in Fund Balance | \$ 1,300,443 | \$ 1,300,443 | \$ 327,268 | \$ (973,175) |
| Fund Balance - January 1 | 550,647 | 550,647 | 550,647 | - |
| Increase (decrease) in reserved for inventories | - | - | 857 | 857 |
| Fund Balance - December 31 | \$ 1,851,090 | \$ 1,851,090 | \$ 878,772 | \$ (972,318) |

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 785,600 | \$ 785,600 | \$ 733,272 | \$ (52,328) |
| Intergovernmental | 579,427 | 579,427 | 836,095 | 256,668 |
| Charges for services | 4,100 | 4,100 | 12,936 | 8,836 |
| Miscellaneous | 71,893 | 71,893 | 84,952 | 13,059 |
| Total Revenues | \$ 1,441,020 | \$ 1,441,020 | \$ 1,667,255 | \$ 226,235 |
| Expenditures | | | | |
| Current | | | | |
| Human services | | | | |
| Income maintenance | \$ 538,897 | \$ 538,897 | \$ 490,162 | \$ 48,735 |
| Social services | 902,123 | 902,123 | 769,105 | 133,018 |
| Total Expenditures | \$ 1,441,020 | \$ 1,441,020 | \$ 1,259,267 | \$ 181,753 |
| Excess of Revenues Over (Under) Expenditures | \$ - | \$ - | \$ 407,988 | \$ 407,988 |
| Fund Balance - January 1 | 883,967 | 883,967 | 883,967 | - |
| Fund Balance - December 31 | \$ 883,967 | \$ 883,967 | \$ 1,291,955 | \$ 407,988 |

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2008**

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/Treasurer 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, 2008, expenditures exceeded appropriations in the General Fund by \$112,876. These expenditures in excess of budget were funded by greater than anticipated revenues in the General Fund.

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SUPPLEMENTARY INFORMATION

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUND

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

CAPITAL PROJECTS FUNDS

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

The Jail/LEC Capital Projects Fund is used to account for the financial resources used for the jail/law enforcement center.

DEBT SERVICE FUNDS

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.

The Jail/LEC Debt Service Fund is used to account for the accumulation of resources and the payment of principal and interest of general obligation bonds for the jail/law enforcement center.

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Statement A-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2008**

| | Building Special Revenue | Jail/LEC Debt Service | Jail/LEC Capital Projects | Total |
|---|---|----------------------------------|--------------------------------------|-------------------|
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 430,705 | \$ 135,085 | \$ 101,761 | \$ 667,551 |
| Undistributed cash in agency funds | 333 | 4,515 | - | 4,848 |
| Taxes receivable | | | | |
| Current | 241 | 3,271 | - | 3,512 |
| Prior | 89 | 558 | - | 647 |
| Due from other funds | 7,948 | - | - | 7,948 |
| Total Assets | \$ 439,316 | \$ 143,429 | \$ 101,761 | \$ 684,506 |
| <u>Liabilities and Fund Balances</u> | | | | |
| Liabilities | | | | |
| Due to other funds | \$ - | \$ 4,066 | \$ 7,948 | \$ 12,014 |
| Deferred revenue - unavailable | 236 | 2,594 | - | 2,830 |
| Total Liabilities | \$ 236 | \$ 6,660 | \$ 7,948 | \$ 14,844 |
| Fund Balances | | | | |
| Reserved for debt service | \$ - | \$ 136,769 | \$ - | \$ 136,769 |
| Undesignated | 439,080 | - | 93,813 | 532,893 |
| Total Fund Balances | \$ 439,080 | \$ 136,769 | \$ 93,813 | \$ 669,662 |
| Total Liabilities and Fund Balances | \$ 439,316 | \$ 143,429 | \$ 101,761 | \$ 684,506 |

**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, 2008**

| | <u>Building Special Revenue</u> | <u>Debt Service (Statement B-1)</u> | <u>Capital Projects (Statement C-1)</u> | <u>Total</u> |
|---|---|---|---|-------------------|
| Revenues | | | | |
| Taxes | \$ 14,207 | \$ 191,313 | \$ - | \$ 205,520 |
| Intergovernmental | 996 | - | - | 996 |
| Miscellaneous | 61,651 | - | - | 61,651 |
| Total Revenues | \$ 76,854 | \$ 191,313 | \$ - | \$ 268,167 |
| Expenditures | | | | |
| Current | | | | |
| Public safety | \$ - | \$ - | \$ 12,874 | \$ 12,874 |
| Debt service | | | | |
| Principal | - | 50,000 | - | 50,000 |
| Interest | - | 105,416 | - | 105,416 |
| Administrative charges | - | 431 | - | 431 |
| Total Expenditures | \$ - | \$ 155,847 | \$ 12,874 | \$ 168,721 |
| Excess of Revenues Over (Under) Expenditures | \$ 76,854 | \$ 35,466 | \$ (12,874) | \$ 99,446 |
| Other Financing Sources (Uses) | | | | |
| Transfers out | - | (19,222) | (31,534) | (50,756) |
| Net Change in Fund Balance | \$ 76,854 | \$ 16,244 | \$ (44,408) | \$ 48,690 |
| Fund Balance - January 1 | 362,226 | 120,525 | 138,221 | 620,972 |
| Fund Balance - December 31 | \$ 439,080 | \$ 136,769 | \$ 93,813 | \$ 669,662 |

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Statement B-1

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | Capital Equipment | Jail/LEC | Total (Statement A-2) |
|--|------------------------------|--------------------------|----------------------------------|
| Revenues | | | |
| Taxes | \$ <u>9</u> | \$ <u>191,304</u> | \$ <u>191,313</u> |
| Expenditures | | | |
| Debt service | | | |
| Principal | \$ - | \$ 50,000 | \$ 50,000 |
| Interest | 4,066 | 101,350 | 105,416 |
| Administrative charges | - | 431 | 431 |
| Total Expenditures | \$ <u>4,066</u> | \$ <u>151,781</u> | \$ <u>155,847</u> |
| Excess of Revenues Over (Under) | | | |
| Expenditures | \$ (4,057) | \$ 39,523 | \$ 35,466 |
| Other Financing Sources (Uses) | | | |
| Transfers out | <u>(19,222)</u> | <u>-</u> | <u>(19,222)</u> |
| Net Change in Fund Balance | \$ (23,279) | \$ 39,523 | \$ 16,244 |
| Fund Balance - January 1 | <u>23,279</u> | <u>97,246</u> | <u>120,525</u> |
| Fund Balance - December 31 | \$ <u>-</u> | \$ <u>136,769</u> | \$ <u>136,769</u> |

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Statement C-1

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | Capital Equipment | Jail/LEC | Total (Statement A-2) |
|---------------------------------------|------------------------------|-----------------|----------------------------------|
| Expenditures | | | |
| Current | | | |
| Public safety | \$ - | \$ 12,874 | \$ 12,874 |
| Other Financing Sources (Uses) | | | |
| Transfers out | (31,534) | - | (31,534) |
| Net Change in Fund Balance | \$ (31,534) | \$ (12,874) | \$ (44,408) |
| Fund Balance - January 1 | 31,534 | 106,687 | 138,221 |
| Fund Balance - December 31 | \$ - | \$ 93,813 | \$ 93,813 |

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
BUILDING SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|-----------------------------------|--------------------------|--------------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 14,657 | \$ 14,657 | \$ 14,207 | \$ (450) |
| Intergovernmental | 343 | 343 | 996 | 653 |
| Miscellaneous | - | - | 61,651 | 61,651 |
| Total Revenues | \$ 15,000 | \$ 15,000 | \$ 76,854 | \$ 61,854 |
| Fund Balance - January 1 | 362,226 | 362,226 | 362,226 | - |
| Fund Balance - December 31 | <u>\$ 377,226</u> | <u>\$ 377,226</u> | <u>\$ 439,080</u> | <u>\$ 61,854</u> |

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
JAIL/LEC DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|-------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 200,000 | \$ 200,000 | \$ 191,304 | \$ (8,696) |
| Expenditures | | | | |
| Debt service | | | | |
| Principal | \$ 151,350 | \$ 151,350 | \$ 50,000 | \$ 101,350 |
| Interest | - | - | 101,350 | (101,350) |
| Administrative charges | - | - | 431 | (431) |
| Total Expenditures | <u>\$ 151,350</u> | <u>\$ 151,350</u> | <u>\$ 151,781</u> | <u>\$ (431)</u> |
| Excess of Revenues Over (Under) Expenditures | \$ 48,650 | \$ 48,650 | \$ 39,523 | \$ (9,127) |
| Fund Balance - January 1 | <u>-</u> | <u>-</u> | <u>97,246</u> | <u>97,246</u> |
| Fund Balance - December 31 | <u>\$ 48,650</u> | <u>\$ 48,650</u> | <u>\$ 136,769</u> | <u>\$ 88,119</u> |

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

AGENCY FUNDS

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

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

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

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

The Traverse County Connections Fund is used to account for the receipt and payment of federal, state, and local grants and membership contributions for the Children's Mental Health and Family Services Collaborative.

The Communities United in Partnership Fund is used to account for the receipt of a grant from the Blandin Foundation for projects in the Cities of Browns Valley, Dumont, Tintah, and Wheaton.

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Statement D-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|---------------------------------------|------------------------------|---------------------|---------------------|--------------------------------|
| <u>SCHOOL DISTRICTS</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ (1,701) | \$ 1,007,308 | \$ 1,005,607 | \$ - |
| Due from other governments | 1,701 | - | 1,701 | - |
| Total Assets | \$ - | \$ 1,007,308 | \$ 1,007,308 | \$ - |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ - | \$ 1,007,308 | \$ 1,007,308 | \$ - |
| <u>STATE REVENUE</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 20,572 | \$ 502,767 | \$ 503,652 | \$ 19,687 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 20,572 | \$ 502,767 | \$ 503,652 | \$ 19,687 |
| <u>TAXES AND PENALTIES</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 68,831 | \$ 2,988,118 | \$ 2,996,698 | \$ 60,251 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 68,831 | \$ 2,988,118 | \$ 2,996,698 | \$ 60,251 |

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Statement D-1
(Continued)

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | <u>Balance January 1</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance December 31</u> |
|---|------------------------------|------------------|-------------------|--------------------------------|
| <u>TOWNS AND CITIES</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ - | \$ 1,666,263 | \$ 1,666,263 | \$ - |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ - | \$ 1,666,263 | \$ 1,666,263 | \$ - |
| <u>TRAVERSE COUNTY CONNECTIONS</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 18,992 | \$ 38,502 | \$ 17,103 | \$ 40,391 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 18,992 | \$ 38,502 | \$ 17,103 | \$ 40,391 |
| <u>COMMUNITIES UNITED IN PARTNERSHIP</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 11,663 | \$ - | \$ - | \$ 11,663 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 11,663 | \$ - | \$ - | \$ 11,663 |

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Statement D-1
(Continued)

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|--------------------------------------|------------------------------|---------------------|---------------------|--------------------------------|
| <u>TOTAL ALL AGENCY FUNDS</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 118,357 | \$ 6,202,958 | \$ 6,189,323 | \$ 131,992 |
| Due from other governments | 1,701 | - | 1,701 | - |
| Total Assets | \$ 120,058 | \$ 6,202,958 | \$ 6,191,024 | \$ 131,992 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 120,058 | \$ 6,202,958 | \$ 6,191,024 | \$ 131,992 |

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OTHER SCHEDULES

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Schedule 6

**SCHEDULE OF DEPOSITS AND INVESTMENTS
DECEMBER 31, 2008**

| | <u>Interest Rate (%)</u> | <u>Maturity Date</u> | <u>Fair Value</u> |
|---|------------------------------|---------------------------------------|----------------------------|
| Cash and Pooled Investments | | | |
| Cash on hand | - | - | \$ 1,700 |
| Noninterest-bearing checking (two) | - | Continuous | 2,694,818 |
| Interest-bearing checking (three) | 0.10 to 0.55 | Continuous | 106,671 |
| Money market savings (three) | 1.00 to 2.69 | Continuous | 1,090,877 |
| Certificates of deposit (six) | 2.25 to 3.25 | March 4, 2009 to December 1, 2009 | 485,290 |
| Mutual funds (two) | 1.00 to 3.18 | Continuous | 41,391 |
| U.S. Treasury strip | - | August 15, 2013 | 202,034 |
| Federal Home Loan Mortgage Corporation (one) | 4.25 | June 15, 2018 | 90,611 |
| Broker-held money markets (two) | 0.50 to 0.69 | Continuous | 114,927 |
| Total Cash and Pooled Investments | | | <u>\$ 4,828,319</u> |
| Investments from Funds | | | |
| General Fund | | | |
| Certificates of deposit (two) | 1.68 to 2.50 | April 2, 2009 to May 19, 2009 | <u>\$ 96,266</u> |
| Traverse Care Center Enterprise Fund | | | |
| Interest-bearing checking (two) | 0.09 to 0.30 | Continuous | \$ 33,893 |
| Certificates of deposit (three) | 2.50 to 2.75 | April 2, 2009 to December 31, 2009 | 50,904 |
| Total Traverse Care Center Enterprise Fund | | | <u>\$ 84,797</u> |
| Total Investments from Funds | | | <u>\$ 181,063</u> |

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Schedule 7

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Shared Revenue

State

| | | |
|------------------------------|----|-----------|
| Highway users tax | \$ | 1,398,597 |
| Program aid | | 88,345 |
| Market value credit (MVC) | | 125,890 |
| Mobile home MVC | | 561 |
| MVC - agricultural | | 75,293 |
| PERA rate reimbursement | | 16,482 |
| Disparity reduction aid | | 18,596 |
| Police aid | | 22,369 |
| Wetland reimbursement credit | | 4,015 |
| State disaster fund | | 1,118 |
| | | 1,751,266 |

Total Shared Revenue

\$ 1,751,266

Reimbursement for Services

State

| | | |
|--|----|--------|
| Minnesota Department of Human Services | \$ | 78,776 |
| | | 78,776 |

Payments

Local

| | | |
|---------------------------|----|--------|
| Local contributions | \$ | 57,757 |
| Payments in lieu of taxes | | 23,807 |
| | | 81,564 |

Total Payments

\$ 81,564

Grants

State

| | | |
|------------------------------------|----|---------|
| Minnesota Department/Board of | | |
| Examining Boards | \$ | 2,403 |
| Corrections | | 18,801 |
| Public Safety | | 79,329 |
| Natural Resources | | 1,155 |
| Human Services | | 262,865 |
| Water and Soil Resources | | 104,713 |
| Office of Environmental Assistance | | 55,000 |
| | | 524,266 |

Total State

\$ 524,266

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Schedule 7
(Continued)

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Grants (Continued)

Federal

| | |
|---------------------------|-----------|
| Department of | |
| Agriculture | \$ 45,623 |
| Transportation | 677,319 |
| Health and Human Services | 370,693 |
| Homeland Security | 44,637 |
| | 44,637 |

| | |
|----------------------|---------------------|
| Total Federal | \$ 1,138,272 |
|----------------------|---------------------|

| | |
|---------------------------------------|---------------------|
| Total State and Federal Grants | \$ 1,662,538 |
|---------------------------------------|---------------------|

| | |
|--|---------------------|
| Total Intergovernmental Revenue | \$ 3,574,144 |
|--|---------------------|

Below is a reconciliation between the federal awards granted on the Schedule of Intergovernmental Revenue, which is based on modified accrual, to the Schedule of Expenditures of Federal Awards, which is based on full accrual accounting.

| | |
|---|--------------|
| Total Federal Revenue per Schedule of Intergovernmental Revenue (Schedule 7) | \$ 1,138,272 |
| State Administrative Matching Grant for Supplemental Nutrition Assistance Program | (1,436) |
| Highway Planning and Construction | 77,711 |
| Temporary Assistance for Needy Families (TANF) | (18,383) |
| Foster Care Title IV-E | (4,924) |
| Medical Assistance Program | 10,465 |
| | 10,465 |

| | |
|---|---------------------|
| Total Federal Awards per Schedule of Expenditures of Federal Awards (Schedule 9) | \$ 1,201,705 |
|---|---------------------|

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Schedule 8

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Traverse County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Traverse County and are reported in the "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*." One of the significant deficiencies is a material weakness.
- C. No instances of noncompliance material to the financial statements of Traverse County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award program for Traverse County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major program is:
 - Highway Planning and Construction CFDA #20.205
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Traverse County was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-3 Segregation of Duties

Due to the limited number of personnel within Traverse County, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Traverse County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

Without proper segregation of duties, errors or irregularities may not be detected timely.

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's management is aware that staff size does not allow for ideal segregation of some accounting functions. County management is constantly exploring oversight procedures to ensure that we have the best controls in place given existing staff levels.

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:

Traverse County will continue to train employees and develop expertise to enable the 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 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 identified several material adjustments.

- Adjustments were made to the General Fund to correct a client entry by increasing investments and interest on investments by \$94,185; to reclassify \$34,000 posted as state revenue to the correct federal grants; to reclassify \$156,743 posted as miscellaneous revenue to the proper state grants; to increase receivables and deferred revenue - unavailable by \$124,068 for unrecorded 2008 probation cost reimbursements from area counties; and an entry was made reducing several fund balance reserves by a total of \$97,778 and increasing other fund balance reserves by \$85,868 and the unreserved, undesignated fund balance by \$11,910 to reflect the changes in reserves that took place during the year.
- Adjustments were made to the Road and Bridge Special Revenue Fund to record additional receivables in the amount of \$3,299,738 and to record deferred revenue in the amount of \$3,299,865 for receivables not available during the revenue recognition period; to reclassify \$201,994 shown as accounts payable to contracts payable; to reclassify a reversal of a prior audit receivable in the amount of \$120,322 that the client posted to the incorrect account; and an entry was made reducing some fund balance reserves by a total of \$124,724 and increasing the fund balance reserved for prepaid items by \$6,749 and the unreserved, undesignated fund balance by \$117,975 to reflect the changes in reserves that took place during the year.
- Adjustments were made to the Social Services Special Revenue Fund to reclassify \$53,284 posted as tax revenue to intergovernmental revenue for state credits, to reduce revenue and record a payable in the amount of \$21,954 due to the Department of Human Services for Targeted Case Management Contingency funds repaid in January 2009, and to reclassify an \$87,067 Health Reimbursement Grant received from Prime West posted as gifts and contributions to local grants and defer \$46,599 for the portion received but not earned in 2008.
- Adjustments were made to the Prairieview Place Enterprise Fund to reclassify a \$35,000 bond payment from a nonoperating expenditure account to a reduction of the G.O. bonds payable liability account, to reflect a \$46,435 increase in accumulated depreciation on capital assets, and an adjustment to due to other funds in the amount of \$14,700 for fuel original prepaid by the General Fund.
- Material 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 internal controls and training to ensure all entries to the system are done correctly to avoid any possible misstatements in the financial statements.

ITEMS ARISING THIS YEAR

08-1 Documenting and Monitoring Internal Controls

County management is responsible for the County's internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting. The risk assessment is intended to determine if the internal controls that have been established by County management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided. Although the County may informally assess risks and adjust internal control procedures to address those risks, there are no formal procedures or documentation of those procedures in place.

At a minimum, the following significant internal control areas should be documented:

- cash and investment activities;
- capital assets (capitalization process and related depreciation);
- major funding sources (taxes, intergovernmental revenues, charges for services, and miscellaneous items);
- expenditure/expense processing;

- payroll; and
- inventories.

We recommend that County management document the significant internal controls in its accounting system, including an assessment of risk and the processes used to minimize the risks. We also recommend that a formal plan be developed that calls for monitoring the internal control structure on a regular basis, no less than annually. The monitoring activity should also be documented to show the results of the review, any changes required, and who performed the work.

Client's Response:

Traverse County management will document the significant internal controls in its accounting system, including an assessment of risk and the processes used to minimize the risks. We will document our efforts and any changes required.

08-2 Information System Risk Management

County management is responsible for internal controls related to its information system. This responsibility extends to monitoring ongoing activities provided by service organizations. Traverse County contracts with Computer Professionals Unlimited, Inc. (CPUI), a service organization, to provide:

- computer hardware for hosting the County's applications;
- processing of accounting transactions and other data;
- daily, weekly, and full system backups of applications and processed data; and
- disaster recovery planning for continued operations.

The County has not developed a formal plan to identify and manage risks associated with this information system arrangement. The County could partially manage these risks if CPUI obtained an audit of its control objectives and control activities. These audits are performed in accordance with Statement on Auditing Standards (SAS) No. 70, *Service Organizations, as amended*. At the present time, a SAS 70 Service Auditor's Report for CPUI was not available.

During our site visit to CPUI, we noted that computers were not located in a restricted area away from public view. The computers are in an unlocked cage. Daily backup tapes for information processed Monday through Thursday are kept onsite in a locked metal cabinet; however, the cabinet is not designed to protect the tapes from the heat that would be generated in the event of a fire. One fire extinguisher was observed in the office. Weekly and full system backup information is kept at an offsite location.

We recommend that Traverse County management establish a formal plan to meet its responsibilities for monitoring internal controls related to its information system. This should include documented consideration of services provided by CPUI. To specifically address hardware and backup physical control weaknesses associated with CPUI, we recommend County management work with CPUI to manage and minimize those risks. Also, the County should consider the possibility of requesting that CPUI obtain a SAS 70 audit.

Client's Response:

Traverse County has contacted CPUI, and they are in the process of rectifying the noted weaknesses. Traverse County will continue to work with CPUI to minimize the risks associated with our information system arrangement.

08-3 Capital Asset Inventory

Traverse County has application software for the purpose of maintaining a centralized record of capital asset valuations and related depreciation. During our audit, we noted several departments were not aware of procedures for reporting capital asset purchases or items sold or discarded. Procedures should be in place to ensure changes in assets are recorded in the capital asset records at or near the time the transaction takes place. Several departments do not perform an annual inventory of capital assets, and many of the assets are not tagged with a pre-numbered tag to indicate they are assets of the County and to allow for easy identification during an inventory of the assets.

Good internal control over capital assets should include a method of determining that all assets that should be included in the capital asset records timely.

We recommend the County establish a uniform procedure for informing the Auditor/Treasurer of any changes in capital assets at the time the change takes place. We recommend the County tag all capital assets for easy identification. We further recommend all departments perform an annual inventory of capital assets to ensure the capital asset records are accurate.

Client's Response:

Traverse County management will train all departments as to the process by which capital assets are acquired/tracked/disposed of.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

07-1 Collateral Pledged to Secure Deposits

At December 31, 2008, deposits with State Bank of Wheaton exceeded the amount of federal deposit insurance and collateral pledged by \$295,160. As required by Minn. Stat. § 118A.03, subd. 3, “[t]he total amount of the collateral computed at its market value shall be at least ten percent more than the amount on deposit at the close of the financial institution’s banking day.”

We recommend that the County Auditor/Treasurer monitor deposits and the market values of pledged collateral in designated depositories to ensure that County funds are fully protected at all times as required by Minn. Stat. § 118A.03.

Client's Response:

Management has implemented controls to prevent deposits from exceeding the amount of collateral pledged.

ITEM ARISING THIS YEAR

08-4

Administrative Citation Procedures

The Traverse County Board approved the implementation of an Administrative Offense Procedures Ordinance on October 21, 2008. Pursuant to this ordinance, at the time of a violation, Sheriff's Department deputies may, at their discretion, provide a notice to the violator of the option of receiving an administrative ticket in lieu of the traditional state citation.

Prior to the 2009 legislative session, Minn. Stat. § 169.022 clearly provided, and a Minnesota Attorney General's opinion concluded, that local public entities did not have authority to issue administrative tickets for state traffic offenses. When state law has already defined a traffic violation and penalty, the only decision and authority of the Sheriff's Department was whether to issue a ticket or not. No discretion was allowed for the County to redefine the amount to be collected for such a penalty.

At Traverse County, however, deputies decided whether to give a warning, issue a state ticket, or issue a County administrative ticket for violations. When a County administrative ticket was issued, the amount to be paid did not include the surcharges for court costs that would have been included with a state ticket, and Traverse County kept all the revenue without forwarding any portion to the state. In addition, state traffic violations committed in Traverse County were kept off the state's driving records, leaving them unknown to insurance companies, law enforcement officers in other agencies, and the Minnesota Department of Public Safety.

In 2009, the Legislature enacted a new statute, Minn. Stat. § 169.999, to authorize the issuance of administrative citations and prescribe criteria for them. This new statute contains detailed requirements which local units of governments will have to follow to implement an administrative citations program.

With the issuance of the new law, Traverse County discontinued issuing administrative citations sometime around August 1, 2009.

We recommend the County work with the Minnesota Department of Finance to determine if the County owes any amounts to the state for fines collected through the use of administrative tickets in lieu of the traditional state citations for the period of October 21, 2008, to August 1, 2009.

Client's Response:

Traverse County originally established its administrative offense procedures using a different interpretation of Minn. Stat. ch. 169. Traverse County will be adjusting their administrative procedures ordinance to comply with the new 2009 Minn. Stat. § 169.999.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

97-5 Prairieview Place Net Assets

The Prairieview Place Enterprise Fund had a net asset deficit of \$192,688 at December 31, 2008. Prairieview Place has always maintained a deficit financial condition resulting from the costs of borrowing to finance the construction of the congregate housing project.

The net asset deficit increased by \$75,982 in 2008 due to a net loss of \$85,982 resulting from an operating loss of \$33,363 and a nonoperating loss of \$52,619 due to interest expense on debt, offset with a transfer from the General Fund of \$10,000.

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:

The County Board will monitor the operations of Prairieview Place to determine that income is sufficient for management control and maintenance of the facility.

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. This standard, similar to what GASB Statement 27 did for government

employee pension benefits and plans, provides 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 statement, accounting for OPEB is now similar to the accounting used by governments for pension plans.

In 2008, the Legislature enacted a new law, Minn. Stat. § 471.6175, intended to help local governments address their OPEB liability in at least three important ways:

- it allows governments to create both revocable and irrevocable OPEB trusts;
- it authorizes the use of a different list of permissible investments for both revocable and irrevocable OPEB trusts; and
- it also permits governments to invest OPEB trust assets with the State Board of Investment, bank trust departments, and certain insurance companies.

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

- determine if employees are provided OPEB;
- if OPEB are being provided, the Traverse 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 Traverse County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the Traverse County Board will have to comply with the new legislation enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard;

Schedule 8
(Continued)

- if an OPEB trust will be established, the Traverse County Board will have to decide whether to establish a revocable or an irrevocable trust, and report that trust appropriately in the financial statements; and
- in order to determine annual costs and liabilities that need to be recognized, the Traverse County Board will have to decide whether to hire an actuary.

GASB Statement 45 would be applicable to Traverse County for the year ended December 31, 2009.



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

Board of County Commissioners
Traverse County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Traverse County as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated January 6, 2010. 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 Questioned Costs as items 96-3, 06-2, 06-3, and 08-1 through 08-3 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 Questioned Costs as items 07-1 and 08-4.

Also included in the Schedule of Findings and Questioned Costs is a management practices comment and an other item for consideration. We believe this recommendation 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, legal compliance findings, and management practices finding identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

January 6, 2010

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners
Traverse County

Compliance

We have audited the compliance of Traverse County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2008. Traverse County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Traverse County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, Traverse County complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2008.

Internal Control Over Compliance

The management of Traverse County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A control deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Traverse County's internal control.

Our consideration of the internal control over compliance 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 or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

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, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated January 6, 2010. We did not audit the financial statements of the Traverse Care Center Enterprise Fund. Those financial statements were audited by other auditors. Our audit was performed for the purpose of forming opinions on Traverse County's basic financial statements. The accompanying Schedule of Expenditures of

Federal Awards is presented for purposes of additional analysis as required by OMB Circular-A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

January 6, 2010

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Schedule 9

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

| Federal Grantor Pass-Through Agency Grant Program Title | Federal CFDA Number | Expenditures |
|--|------------------------------------|---------------------|
| U.S. Department of Agriculture | | |
| Passed Through Minnesota Department of Human Services State Administrative Matching Grants for Supplemental Nutrition Assistance Program | 10.561 | <u>\$ 44,187</u> |
| U.S. Department of Transportation | | |
| Passed Through Minnesota Department of Transportation Highway Planning and Construction | 20.205 | <u>\$ 755,030</u> |
| U.S. Department of Health and Human Services | | |
| Passed Through Minnesota Department of Human Services Temporary Assistance for Needy Families (TANF) | 93.558 | \$ 47,088 |
| Child Support Enforcement | 93.563 | 57,588 |
| Refugee and Entrant Assistance - State-Administered Programs | 93.566 | 134 |
| Child Care Cluster | | |
| Child Care and Development Block Grant | 93.575 | 10,343 |
| Child Care Mandatory and Matching Funds of the Child Care and Development Fund | 93.596 | 8,727 |
| Child Welfare Services - State Grants | 93.645 | 6,226 |
| Foster Care Title IV-E | 93.658 | 46,245 |
| Social Services Block Grant | 93.667 | 52,689 |
| Children's Health Insurance Program | 93.767 | 120 |
| Medical Assistance Program | 93.778 | 127,613 |
| Block Grants for Community Mental Health Services | 93.958 | 1,078 |
| Total U.S. Department of Health and Human Services | | <u>\$ 357,851</u> |
| U.S. Department of Homeland Security | | |
| Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance | 97.012 | \$ 10,637 |
| Passed Through Minnesota Department of Public Safety Hazard Mitigation Grant | 97.039 | 6,371 |
| Passed Through Minnesota Department of Public Safety and West Central Minnesota EMS Corporation Homeland Security Grant Program | 97.067 | <u>27,629</u> |
| Total U.S. Department of Homeland Security | | <u>\$ 44,637</u> |
| Total Federal Awards | | <u>\$ 1,201,705</u> |

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Schedule 9
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Traverse County. The County's reporting entity is defined in Note 1 to the basic financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting. Under the modified accrual basis, expenditures may differ from revenues due to timing of reimbursements requested and received.
3. Pass-through grant numbers were not assigned by the pass-through agencies.
4. During 2008, the County did not pass any federal money to subrecipients.