

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

TRAVERSE COUNTY
WHEATON, MINNESOTA

YEAR ENDED DECEMBER 31, 2010

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, 2010



**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, 2010

			<u>Term Expires</u>
Elected			
Commissioners			
Chair	Gerald Kaus*	District 1	January 2011
Board Member	Kevin Leininger	District 2	January 2013
Board Member	Donny Appel**	District 3	January 2011
Board Member	David Salberg	District 4	January 2013
Vice Chair	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	Bob Marts		January 2011
Appointed			
County Coordinator	Janet Raguse		Indefinite
Assessor	Dianne Reinart		January 2011
County Engineer	Larry Haukos		May 2011
Coroner	Stanley Gallagher, D.O.		January 2011
Examiner of Titles	Lowell Nelson		Indefinite
Social Services Director	Rhonda Antrim		Indefinite
Veterans Service Officer	Gary Tracy		October 2013

*Replaced by Todd Johnson effective January 1, 2011.

**David Naatz passed away in the fall, and Donny Appel replaced him. This made Gerald Kaus Chair and Jerry Deal Vice Chair.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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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, 2010, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Traverse County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Traverse Care Center Enterprise Fund, which is a major fund and 83 percent and 93 percent, respectively, of the 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit 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, 2010, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Traverse County's basic financial statements taken as a whole. The supplementary information, including the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2011, 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

November 30, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010
(Unaudited)**

INTRODUCTION

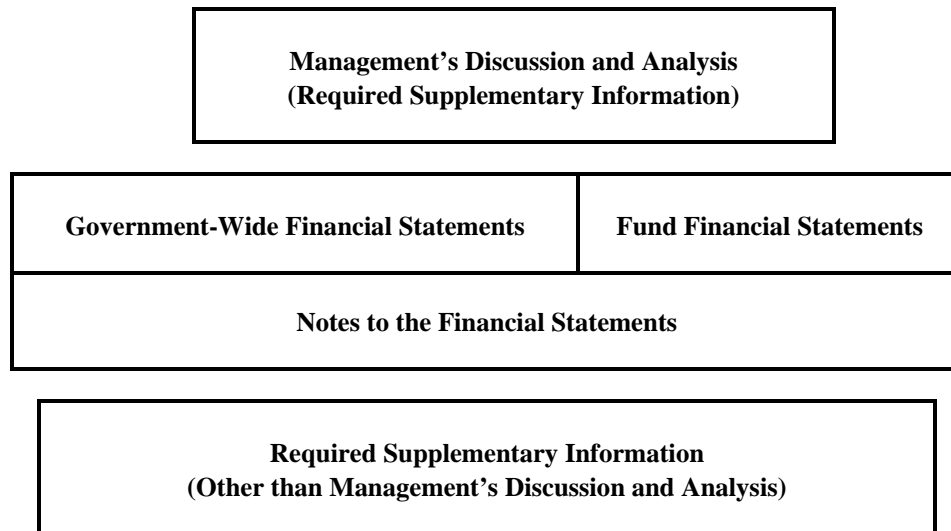
Traverse County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2010. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with a combination of the financial statements and the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' net assets are \$38,824,983, of which \$30,396,859 is invested in capital assets, net of related debt. Of the governmental activities' net assets, \$2,745,984 is restricted to specific purposes/uses by the County and \$5,682,140 is unrestricted.
- Business-type activities (Traverse Care Center and Prairieview Place) have total net assets of \$18,196, of which there is a negative balance of \$440,867 invested in capital assets, net of related debt. Of the business-type activities' net assets, \$72,791 is restricted for specific purposes/uses by the County and \$386,272 is unrestricted.
- Traverse County's net assets increased by \$1,810,389 for the year ended December 31, 2010. Of the increase, \$2,214,397 was in the governmental activities' net assets, while the business-type activities' net assets decreased by \$404,008.
- The net cost of Traverse County's governmental activities for the year ended December 31, 2010, was \$3,326,276. General revenues and other items totaling \$5,540,673 funded the net cost.
- Traverse County's governmental funds' fund balances increased by \$1,717,614 in 2010. This increase was mainly due to a \$465,532 increase in the General Fund, an increase of \$910,486 in the Road and Bridge Special Revenue Fund, an increase of \$345,069 in the Social Services Special Revenue Fund, offset by a decrease of \$3,473 in the other 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 statements present the same information as the business-type activities in the government-wide statements but provide more detail and additional information, such as cash flows.

Reporting the County's Fiduciary Responsibilities

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

THE COUNTY AS A WHOLE

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

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Assets						
Current and other assets	\$ 9,715,326	\$ 8,092,415	\$ 900,731	\$ 1,257,153	\$ 10,616,057	\$ 9,349,568
Capital assets	<u>32,868,505</u>	<u>32,381,103</u>	<u>4,012,154</u>	<u>4,257,883</u>	<u>36,880,659</u>	<u>36,638,986</u>
Total Assets	<u>\$ 42,583,831</u>	<u>\$ 40,473,518</u>	<u>\$ 4,912,885</u>	<u>\$ 5,515,036</u>	<u>\$ 47,496,716</u>	<u>\$ 45,988,554</u>
Liabilities						
Long-term liabilities	\$ 3,111,119	\$ 2,869,678	\$ 4,617,713	\$ 4,637,187	\$ 7,728,832	\$ 7,506,865
Other liabilities	<u>647,729</u>	<u>993,254</u>	<u>276,976</u>	<u>455,645</u>	<u>924,705</u>	<u>1,448,899</u>
Total Liabilities	<u>\$ 3,758,848</u>	<u>\$ 3,862,932</u>	<u>\$ 4,894,689</u>	<u>\$ 5,092,832</u>	<u>\$ 8,653,537</u>	<u>\$ 8,955,764</u>
Net Assets						
Invested in capital assets, net of debt	\$ 30,396,859	\$ 29,870,682	\$ (440,867)	\$ (363,863)	\$ 29,955,992	\$ 29,506,819
Restricted	2,745,984	2,388,948	72,791	78,806	2,818,775	2,467,754
Unrestricted	<u>5,682,140</u>	<u>4,350,956</u>	<u>386,272</u>	<u>707,261</u>	<u>6,068,412</u>	<u>5,058,217</u>
Total Net Assets	<u>\$ 38,824,983</u>	<u>\$ 36,610,586</u>	<u>\$ 18,196</u>	<u>\$ 422,204</u>	<u>\$ 38,843,179</u>	<u>\$ 37,032,790</u>

Traverse County's total net assets as of December 31, 2010, total \$38,843,179. The governmental activities' unrestricted net assets totaling \$5,682,140 are available to finance the day-to-day operations of the governmental activities of the County. The remaining unrestricted net assets totaling \$386,272 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	
	2010	2009	2010	2009	2010	2009
Revenues						
Program revenues						
Fees, fines, and charges	\$ 903,101	\$ 1,217,285	\$ 3,415,562	\$ 3,731,667	\$ 4,318,663	\$ 4,948,952
Operating grants and contributions	4,505,194	5,067,891	1,713	5,167	4,506,907	5,073,058
Capital grants and contributions	261,372	197,328	-	-	261,372	197,328
General revenues						
Property taxes	4,951,149	4,839,477	-	-	4,951,149	4,839,477
Other taxes	23,333	23,438	-	-	23,333	23,438
Grants, gifts, and miscellaneous	566,191	566,347	9,281	2,808	575,472	569,155
Total Revenues	\$ 11,210,340	\$ 11,911,766	\$ 3,426,556	\$ 3,739,642	\$ 14,636,896	\$ 15,651,408
Expenses						
General government	\$ 1,596,926	\$ 1,586,090	\$ -	\$ -	\$ 1,596,926	\$ 1,586,090
Public safety	1,633,198	1,469,671	-	-	1,633,198	1,469,671
Highways and streets	3,645,703	3,450,379	-	-	3,645,703	3,450,379
Sanitation	132,400	121,987	-	-	132,400	121,987
Human services	1,339,366	1,385,033	-	-	1,339,366	1,385,033
Health	103,231	97,671	-	-	103,231	97,671
Culture and recreation	57,619	57,728	-	-	57,619	57,728
Conservation of natural resources	384,791	283,025	-	-	384,791	283,025
Economic development	2,872	2,295	-	-	2,872	2,295
Interest	99,837	104,119	-	-	99,837	104,119
Prairieview Place	-	-	260,029	250,677	260,029	250,677
Traverse Care Center	-	-	3,570,535	3,542,395	3,570,535	3,542,395
Total Expenses	\$ 8,995,943	\$ 8,557,998	\$ 3,830,564	\$ 3,793,072	\$ 12,826,507	\$ 12,351,070
Increase (Decrease) in Net Assets	\$ 2,214,397	\$ 3,353,768	\$ (404,008)	\$ (53,430)	\$ 1,810,389	\$ 3,300,338
Net Assets - January 1	36,610,586	33,256,818	422,204	475,634	37,032,790	33,732,452
Net Assets - December 31	<u>\$ 38,824,983</u>	<u>\$ 36,610,586</u>	<u>\$ 18,196</u>	<u>\$ 422,204</u>	<u>\$ 38,843,179</u>	<u>\$ 37,032,790</u>

The County's activities increased net assets by 4.89 percent (\$38,843,179 for 2010 compared to \$37,032,790 for 2009).

Governmental Activities

The cost of all governmental activities in 2010 was \$8,995,943. 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 \$3,326,276, because some of the cost was paid by those who directly benefited from the programs (\$903,101) or by other governments and organizations that subsidized certain programs with grants and contributions (\$4,766,566).

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	
	2010	2009	2010	2009
Highways and streets	\$ 3,645,703	\$ 3,450,379	\$ 115,833	\$ 547,621
Public safety	1,633,198	1,469,671	703,467	(806,440)
General government	1,596,926	1,586,090	1,414,468	1,431,312
Human services	1,339,366	1,385,033	507,531	408,851
Conservation of natural resources	384,791	283,025	375,559	221,011
All others	395,959	383,800	209,418	273,139
Total	<u>\$ 8,995,943</u>	<u>\$ 8,557,998</u>	<u>\$ 3,326,276</u>	<u>\$ 2,075,494</u>

Business-Type Activities

Revenues for Traverse County's business-type activities (see Table 2) were \$3,426,556, and expenses were \$3,830,564.

The County's Funds

Upon completing the year, Traverse County's governmental funds' fund balance increased by \$1,717,614. This increase was due to an increase of \$910,486 in the Road and Bridge Special Revenue Fund, an increase of \$345,069 in the Social Services Special Revenue Fund, an increase of \$465,532 in the General Fund, offset by a decrease of \$3,473 in other governmental funds.

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 2010.

Actual revenues exceeded budgeted revenues in the General Fund by \$366,912, primarily due to intergovernmental revenues of \$254,487 over projections, special assessments of \$58,522 over projections, investment earnings of \$25,350 over projections, and miscellaneous revenues of \$132,930 over projected amounts, offset by tax collections of \$76,370 under the projected total, and charges for services \$29,835 under projected totals.

Actual expenditures exceeded budgeted expenditures in the General Fund by \$71,783, primarily due to public safety expenditures of \$33,125 over projections, conservation of natural resources expenditures of \$48,582 over projections, and debt service charges of \$50,135 over projected amounts, offset by general governmental expenditures of \$79,516 under projections.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2010, Traverse County had \$36,880,659 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 \$241,673, or 0.66 percent, over last year.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Land	\$ 176,352	\$ 176,352	\$ 16,175	\$ 16,175	\$ 192,527	\$ 192,527
Right-of-way	478,548	478,548	-	-	478,548	478,548
Construction in progress	10,000	10,000	-	-	10,000	10,000
Buildings	3,481,251	3,595,790	3,922,447	4,150,145	7,403,698	7,745,935
Land improvements	106,968	36,515	3,918	4,804	110,886	41,319
Machinery, furniture, and equipment	1,211,657	1,213,986	69,614	86,759	1,281,271	1,300,745
Infrastructure	27,403,729	26,869,912	-	-	27,403,729	26,869,912
Totals	<u>\$ 32,868,505</u>	<u>\$ 32,381,103</u>	<u>\$ 4,012,154</u>	<u>\$ 4,257,883</u>	<u>\$ 36,880,659</u>	<u>\$ 36,638,986</u>

Debt

As of December 31, 2010, Traverse County had \$6,751,851 in long-term obligations, compared with \$7,011,296 as of December 31, 2009--a decrease of 3.7 percent--as shown in Table 5.

Table 5
Outstanding Debt at Year-End

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
General obligation bonds	\$ 2,285,000	\$ 2,375,000	\$ 965,000	\$ 1,005,000	\$ 3,250,000	\$ 3,380,000
Revenue bonds	-	-	3,350,000	3,435,000	3,350,000	3,435,000
Loans	-	-	151,851	196,296	151,851	196,296
Totals	<u>\$ 2,285,000</u>	<u>\$ 2,375,000</u>	<u>\$ 4,466,851</u>	<u>\$ 4,636,296</u>	<u>\$ 6,751,851</u>	<u>\$ 7,011,296</u>

No new debt was issued in 2010.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Traverse County's elected and appointed officials considered many factors when setting the fiscal year 2011 budget, tax levy, and fees that will be charged for the business-type activities. These factors include: decreasing state aid, increasing input costs, appropriate fund balances, an increasing burden on Traverse County taxpayers, and a need to provide a certain level of services to Traverse County residents/taxpayers.

Traverse County's Board of Commissioners settled on a final levy of \$5,036,537, a 1.5 percent decrease from the 2010 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, 2010**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 5,592,567	\$ 426,823	\$ 6,019,390
Investments	98,033	35,229	133,262
Taxes receivable			
Current - net	90,301	-	90,301
Prior - net	52,651	-	52,651
Special assessments receivable			
Current - net	7,731	-	7,731
Prior - net	3,978	-	3,978
Accounts receivable - net	33,842	220,948	254,790
Accrued interest receivable	3,355	-	3,355
Internal balances	175	(175)	-
Due from other governments	3,730,007	-	3,730,007
Inventories	54,762	-	54,762
Restricted assets			
Cash and pooled investments - temporarily restricted	-	81,896	81,896
Investments	-	40,616	40,616
Residents' trust fund	-	858	858
Noncurrent assets			
Deferred charges	47,924	94,536	142,460
Capital assets			
Non-depreciable	664,900	16,175	681,075
Depreciable - net of accumulated depreciation	32,203,605	3,995,979	36,199,584
Total Assets	\$ 42,583,831	\$ 4,912,885	\$ 47,496,716

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT 1
(Continued)**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2010**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 224,847	\$ 20,692	\$ 245,539
Salaries payable	36,451	-	36,451
Contracts payable	13,869	-	13,869
Due to other governments	35,647	-	35,647
Third-party payor settlements payable	-	6,190	6,190
Compensated absences payable - current	152,858	-	152,858
General obligation bonds payable - current	95,000	40,000	135,000
Revenue bonds payable - current	-	85,000	85,000
Leases payable - current	49,234	-	49,234
Loans payable - current	-	44,444	44,444
Interest payable	39,823	70,687	110,510
Residents' trust fund	-	858	858
Rent deposits	-	9,105	9,105
Noncurrent liabilities			
Compensated absences payable	94,897	-	94,897
Net OPEB liability	649,780	316,101	965,881
General obligation bonds payable	2,229,030	920,653	3,149,683
Revenue bonds payable	-	3,273,552	3,273,552
Leases payable	137,412	-	137,412
Loans payable	-	107,407	107,407
Total Liabilities	\$ 3,758,848	\$ 4,894,689	\$ 8,653,537
<u>Net Assets</u>			
Invested in capital assets - net of related debt	\$ 30,396,859	\$ (440,867)	\$ 29,955,992
Restricted for			
General government	82,052	-	82,052
Public safety	199,636	-	199,636
Highways and streets	2,051,885	-	2,051,885
Human services	15,674	-	15,674
Sanitation	245,855	-	245,855
Debt service	150,882	72,791	223,673
Unrestricted	5,682,140	386,272	6,068,412
Total Net Assets	\$ 38,824,983	\$ 18,196	\$ 38,843,179

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary government		
Governmental activities		
General government	\$ 1,596,926	\$ 155,984
Public safety	1,633,198	479,931
Highways and streets	3,645,703	104,566
Sanitation	132,400	63,329
Human services	1,339,366	80,049
Health	103,231	-
Culture and recreation	57,619	12,486
Conservation of natural resources	384,791	6,756
Economic development	2,872	-
Interest	99,837	-
	\$ 8,995,943	\$ 903,101
Total governmental activities		
Business-type activities		
Traverse Care Center	\$ 3,570,535	\$ 3,193,902
Prairieview Place	260,029	221,660
	\$ 3,830,564	\$ 3,415,562
Total business-type activities		
	\$ 12,826,507	\$ 4,318,663
Total Primary Government		

General Revenues

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

Total general revenues

Change in net assets

Net Assets - Beginning

Net Assets - Ending

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
\$ 26,474	\$ -	\$ (1,414,468)	\$ -	\$ (1,414,468)
449,800	-	(703,467)	-	(703,467)
3,163,932	261,372	(115,833)	-	(115,833)
55,950	-	(13,121)	-	(13,121)
751,786	-	(507,531)	-	(507,531)
-	-	(103,231)	-	(103,231)
54,776	-	9,643	-	9,643
2,476	-	(375,559)	-	(375,559)
-	-	(2,872)	-	(2,872)
-	-	(99,837)	-	(99,837)
\$ 4,505,194	\$ 261,372	\$ (3,326,276)	\$ -	\$ (3,326,276)
\$ 1,713	\$ -	\$ -	\$ (374,920)	\$ (374,920)
-	-	-	(38,369)	(38,369)
\$ 1,713	\$ -	\$ -	\$ (413,289)	\$ (413,289)
\$ 4,506,907	\$ 261,372	\$ (3,326,276)	\$ (413,289)	\$ (3,739,565)
		\$ 4,951,149	\$ -	\$ 4,951,149
		3,033	-	3,033
		284,107	-	284,107
		20,300	-	20,300
		69,107	9,281	78,388
		212,977	-	212,977
		\$ 5,540,673	\$ 9,281	\$ 5,549,954
		\$ 2,214,397	\$ (404,008)	\$ 1,810,389
		36,610,586	422,204	37,032,790
		\$ 38,824,983	\$ 18,196	\$ 38,843,179

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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, 2010**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<u>Assets</u>					
Cash and pooled investments	\$ 1,638,677	\$ 928,675	\$ 2,056,029	\$ 748,775	\$ 5,372,156
Petty cash and change funds	1,400	-	100	-	1,500
Undistributed cash in agency funds	119,454	59,291	32,633	7,533	218,911
Investments	98,033	-	-	-	98,033
Taxes receivable					
Current	47,523	25,506	14,034	3,238	90,301
Prior	26,252	15,618	8,403	2,378	52,651
Special assessments receivable					
Current	7,731	-	-	-	7,731
Prior	3,978	-	-	-	3,978
Accounts receivable	9,493	23,020	1,329	-	33,842
Accrued interest receivable	3,355	-	-	-	3,355
Due from other funds	49,883	2,173	-	-	52,056
Due from other governments	180,195	3,452,773	97,039	-	3,730,007
Inventories	-	54,762	-	-	54,762
Total Assets	\$ 2,185,974	\$ 4,561,818	\$ 2,209,567	\$ 761,924	\$ 9,719,283

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 60,418	\$ 126,984	\$ 37,445	\$ -	\$ 224,847
Salaries payable	694	35,757	-	-	36,451
Contracts payable	-	13,869	-	-	13,869
Due to other funds	2,173	961	48,747	-	51,881
Due to other governments	12,064	4,400	19,183	-	35,647
Deferred revenue					
Unavailable	60,661	2,580,931	28,989	3,357	2,673,938
Compensated absences	2,818	5,129	1,282	-	9,229
Total Liabilities	\$ 138,828	\$ 2,768,031	\$ 135,646	\$ 3,357	\$ 3,045,862
Fund Balances					
Reserved for					
Boat and water safety	\$ 11,897	\$ -	\$ -	\$ -	\$ 11,897
Debt service	-	-	-	150,882	150,882
Future plant expansion	245,855	-	-	-	245,855
Inventories	-	54,762	-	-	54,762
Missing heirs	31,336	-	-	-	31,336
State-aid highway projects	-	1,073	-	-	1,073
Enhanced 911	187,739	-	-	-	187,739
HAVA	2,501	-	-	-	2,501
Recorder's equipment	46,201	-	-	-	46,201
Recorder's compliance fund	33,350	-	-	-	33,350
Rainbow Rider	15,674	-	-	-	15,674
Unreserved					
Undesignated	1,472,593	1,737,952	2,073,921	-	5,284,466
Reported in nonmajor special revenue fund	-	-	-	607,685	607,685
Total Fund Balances	\$ 2,047,146	\$ 1,793,787	\$ 2,073,921	\$ 758,567	\$ 6,673,421
Total Liabilities and Fund Balances	\$ 2,185,974	\$ 4,561,818	\$ 2,209,567	\$ 761,924	\$ 9,719,283

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2010**

Fund balance - total governmental funds (Exhibit 3)	\$ 6,673,421
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	32,868,505
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	2,673,938
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	\$ (2,285,000)
Less: deferred debt issuance costs	47,924
Add: unamortized premiums	(39,030)
Capital leases	(186,646)
Compensated absences	(238,526)
Accrued interest payable	(39,823)
Net OPEB liability	<u>(649,780)</u>
	<u>(3,390,881)</u>
Net Assets of Governmental Activities (Exhibit 1)	<u>\$ 38,824,983</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Revenues					
Taxes	\$ 2,640,238	\$ 1,397,905	\$ 768,854	\$ 178,202	\$ 4,985,199
Special assessments	58,522	-	-	-	58,522
Licenses and permits	12,340	-	-	-	12,340
Intergovernmental	540,537	3,236,425	784,419	3,275	4,564,656
Charges for services	186,965	218,520	24,193	-	429,678
Fines and forfeits	58	-	-	-	58
Investment earnings	70,350	-	-	-	70,350
Miscellaneous	690,923	48,126	60,326	-	799,375
Total Revenues	\$ 4,199,933	\$ 4,900,976	\$ 1,637,792	\$ 181,477	\$ 10,920,178
Expenditures					
Current					
General government	\$ 1,582,611	\$ -	\$ -	\$ -	\$ 1,582,611
Public safety	1,523,395	-	-	-	1,523,395
Highways and streets	-	3,804,466	-	-	3,804,466
Sanitation	121,727	-	-	-	121,727
Human services	-	-	1,292,723	-	1,292,723
Health	103,231	-	-	-	103,231
Culture and recreation	56,671	-	-	-	56,671
Conservation of natural resources	386,059	-	-	-	386,059
Economic development	2,872	-	-	-	2,872
Intergovernmental	-	194,499	-	-	194,499
Debt service					
Principal	41,075	-	-	90,000	131,075
Interest	8,697	-	-	94,950	103,647
Administrative charges	363	-	-	-	363
Total Expenditures	\$ 3,826,701	\$ 3,998,965	\$ 1,292,723	\$ 184,950	\$ 9,303,339
Excess of Revenues Over (Under) Expenditures	\$ 373,232	\$ 902,011	\$ 345,069	\$ (3,473)	\$ 1,616,839
Other Financing Sources (Uses)					
Capital lease issued	92,300	-	-	-	92,300
Net Change in Fund Balance	\$ 465,532	\$ 902,011	\$ 345,069	\$ (3,473)	\$ 1,709,139
Fund Balance - January 1	1,581,614	883,301	1,728,852	762,040	4,955,807
Increase (decrease) in reserved for inventories	-	8,475	-	-	8,475
Fund Balance - December 31	\$ 2,047,146	\$ 1,793,787	\$ 2,073,921	\$ 758,567	\$ 6,673,421

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

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 1,709,139

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	\$ 2,673,938	
Deferred revenue - January 1	<u>(2,383,714)</u>	290,224

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	\$ 1,604,393	
Current year depreciation	<u>(1,116,991)</u>	487,402

Issuance of debt provides current financial resources to governmental funds, but increases long-term liabilities in the statement of net assets.

Capital lease financing		(92,300)
-------------------------	--	----------

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	\$ 90,000	
Capital lease	<u>41,075</u>	131,075

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT 6
(Continued)**

**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, 2010**

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

Change in accrued interest payable	\$ 1,721	
Change in deferred charges	(3,011)	
Amortization of bond premiums	2,452	
Change in compensated absences	(16,257)	
Change in inventories	8,475	
Change in net OPEB liability	<u>(304,523)</u>	<u>(311,143)</u>
Change in Net Assets of Governmental Activities (Exhibit 2)		<u><u>\$ 2,214,397</u></u>

PROPRIETARY FUNDS

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2010**

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 10,421	\$ 416,402	\$ 426,823
Investments	-	35,229	35,229
Accounts receivable - net	-	220,948	220,948
Total current assets	\$ 10,421	\$ 672,579	\$ 683,000
Restricted assets			
Cash and pooled investments	\$ 9,105	\$ 72,791	\$ 81,896
Investments	-	40,616	40,616
Residents' trust fund	-	858	858
Total restricted assets	\$ 9,105	\$ 114,265	\$ 123,370
Noncurrent assets			
Advance to other funds	\$ -	\$ 56,961	\$ 56,961
Deferred debt issuance costs	18,034	76,502	94,536
Capital assets			
Nondepreciable	-	16,175	16,175
Depreciable - net	791,011	3,204,968	3,995,979
Total noncurrent assets	\$ 809,045	\$ 3,354,606	\$ 4,163,651
Total Assets	\$ 828,571	\$ 4,141,450	\$ 4,970,021

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

*EXHIBIT 7
(Continued)*

**STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2010**

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 5,769	\$ 14,923	\$ 20,692
Due to other funds	175	-	175
Third-party payor settlements payable	-	6,190	6,190
General obligation bonds payable - current	40,000	-	40,000
Revenue bonds payable - current	-	85,000	85,000
Loans payable - current	-	44,444	44,444
	\$ 45,944	\$ 150,557	\$ 196,501
Current liabilities payable from restricted assets			
Interest payable	\$ -	\$ 70,687	\$ 70,687
Residents' trust fund	-	858	858
Rent deposits	9,105	-	9,105
	\$ 9,105	\$ 71,545	\$ 80,650
Noncurrent liabilities			
Advance from other funds	\$ 56,961	\$ -	\$ 56,961
Loans payable - long-term	-	107,407	107,407
Net OPEB liability	739	315,362	316,101
General obligation bonds payable - long-term	920,653	-	920,653
Revenue bonds payable - long-term	-	3,273,552	3,273,552
	\$ 978,353	\$ 3,696,321	\$ 4,674,674
	\$ 1,033,402	\$ 3,918,423	\$ 4,951,825
<u>Net Assets</u>			
Invested in capital assets - net of related debt	\$ (151,607)	\$ (289,260)	\$ (440,867)
Restricted for debt service	-	72,791	72,791
Unrestricted	(53,224)	439,496	386,272
	\$ (204,831)	\$ 223,027	\$ 18,196

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
Operating Revenues			
Charges for services	\$ 189,916	\$ -	\$ 189,916
Patient services revenues	-	3,090,423	3,090,423
Meals	29,453	-	29,453
Laundry	1,244	-	1,244
Miscellaneous	1,047	103,479	104,526
Total Operating Revenues	\$ 221,660	\$ 3,193,902	\$ 3,415,562
Operating Expenses			
Personal services	\$ 29,878	\$ 718,555	\$ 748,433
Employee benefits and payroll taxes	956	-	956
Nursing services	-	1,056,206	1,056,206
Contracted services	48,500	-	48,500
Administration and fiscal services	-	366,293	366,293
Other care-related	-	97,391	97,391
Supplies	10,498	-	10,498
Ancillary services	-	138,169	138,169
Utilities	36,959	-	36,959
Plant operations	-	204,746	204,746
Advertising	1,550	-	1,550
Repairs and maintenance	12,050	-	12,050
Insurance	5,051	-	5,051
Licenses and dues	378	-	378
Postage	141	-	141
Property and household	-	131,036	131,036
Laundry	-	62,033	62,033
Dietary	-	281,557	281,557
Housekeeping	-	57,818	57,818
Miscellaneous	17,383	-	17,383
Depreciation	46,435	208,083	254,518
Total Operating Expenses	\$ 209,779	\$ 3,321,887	\$ 3,531,666
Operating Income (Loss)	\$ 11,881	\$ (127,985)	\$ (116,104)

**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, 2010**

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
Nonoperating Revenues (Expenses)			
Interest income	\$ 64	\$ 1,747	\$ 1,811
Lease income	7,470	-	7,470
Gifts and contributions	-	1,713	1,713
Interest expense	(50,250)	(169,512)	(219,762)
Loss on investment in joint venture	-	(29,740)	(29,740)
Loss on sale of accounts receivable	-	(49,396)	(49,396)
Total Nonoperating Revenues (Expenses)	\$ (42,716)	\$ (245,188)	\$ (287,904)
Income (Loss) Before Transfers	\$ (30,835)	\$ (373,173)	\$ (404,008)
Transfers in	24,804	-	24,804
Transfers out	-	(24,804)	(24,804)
Change in net assets	\$ (6,031)	\$ (397,977)	\$ (404,008)
Net Assets - January 1	(198,800)	621,004	422,204
Net Assets - December 31	\$ (204,831)	\$ 223,027	\$ 18,196

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010
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	\$ 221,660	\$ 3,157,721	\$ 3,379,381
Payments to suppliers and employees	-	(3,100,921)	(3,100,921)
Payments to suppliers	(130,202)	-	(130,202)
Payments to employees	(31,814)	-	(31,814)
Deductions in rent deposits	(494)	-	(494)
Other receipts and payments - net	-	101,273	101,273
Net cash provided by (used in) operating activities	\$ 59,150	\$ 158,073	\$ 217,223
Cash Flows from Noncapital Financing Activities			
Contributions	-	1,713	1,713
Decrease in investments	-	20	20
Transfer from Traverse Care Center Enterprise Fund	24,804	-	24,804
Transfer to Prairieview Place Enterprise Fund	-	(24,804)	(24,804)
Net cash provided by (used in) noncapital financing activities	\$ 24,804	\$ (23,071)	\$ 1,733
Cash Flows from Capital and Related Financing Activities			
Principal paid on long-term debt	\$ (39,717)	\$ (129,445)	\$ (169,162)
Interest paid on long-term debt	(50,250)	(169,512)	(219,762)
Purchases of capital assets	-	(6,158)	(6,158)
Net cash provided by (used in) capital and related financing activities	\$ (89,967)	\$ (305,115)	\$ (395,082)
Cash Flows from Investing Activities			
Decrease in noncurrent investments	\$ -	\$ 3,552	\$ 3,552
Investment earnings received	64	1,747	1,811
Lease revenue	7,470	-	7,470
Net cash provided by (used in) investing activities	\$ 7,534	\$ 5,299	\$ 12,833
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 1,521	\$ (164,814)	\$ (163,293)
Cash and Cash Equivalents at January 1	18,005	654,007	672,012
Cash and Cash Equivalents at December 31	\$ 19,526	\$ 489,193	\$ 508,719

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010
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	\$ 10,421	\$ 416,402	\$ 426,823
Restricted cash and pooled investments	9,105	72,791	81,896
Total Cash and Cash Equivalents	\$ 19,526	\$ 489,193	\$ 508,719
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities			
Operating income (loss)	\$ 11,881	\$ (127,985)	\$ (116,104)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	\$ 46,435	\$ 208,083	\$ 254,518
Loss on sale of accounts receivable	-	(49,396)	(49,396)
(Increase) decrease in accounts receivable	-	110,694	110,694
(Increase) decrease in inventories	2,144	16,035	18,179
(Increase) decrease in deferred debt issuance costs	1,176	-	1,176
(Increase) decrease in prepaid items	-	12,678	12,678
Increase (decrease) in accounts payable	(203)	(49,475)	(49,678)
Increase (decrease) in compensated absences payable	(1,318)	-	(1,318)
Increase (decrease) in due to other funds	151	-	151
Increase (decrease) in due to other governments	(960)	-	(960)
Increase (decrease) in accrued expenses	-	(123,649)	(123,649)
Increase (decrease) in third-party payor settlements payable	-	6,000	6,000
Increase (decrease) in rent deposits payable	(494)	-	(494)
Increase (decrease) in net OPEB liability	338	155,088	155,426
Total adjustments	\$ 47,269	\$ 286,058	\$ 333,327
Net Cash Provided by (Used in) Operating Activities	\$ 59,150	\$ 158,073	\$ 217,223

FIDUCIARY FUNDS

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TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2010

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	\$ 155,144
Due from other governments	<u>3,677</u>
Total Assets	<u>\$ 158,821</u>
<u>Liabilities</u>	
Due to other governments	<u>\$ 158,821</u>

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2010

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, 2010. 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. Effective December 1, 2010, the County leased its property and operations of Prairieview Place to LSS of Traverse, LLC. Note 7.F. contains additional information related to this lease.

The Traverse Care Center Fund is used to account for the operations of the County's nursing home. Effective December 1, 2010, the County leased its property and operations of Traverse Care Center to LSS of Traverse, LLC. Note 7.F. contains additional information related to this lease.

Additionally, the County reports the following fund type:

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Shared revenues are generally recognized in the period the appropriation goes into effect. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Traverse County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

The County has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Additionally, each fund's equity in the County's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2010, 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 2010 were \$69,178.

Traverse County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission (SEC), but does operate in a manner consistent with Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7). Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

3. Receivables and Payables

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

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

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

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
Land improvements	7 - 20
Infrastructure	50
Machinery, furniture, and equipment	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

Through November 30, 2010, the Traverse Care Center participated in the Medicaid program administered by the Minnesota Department of Human Services. Medicaid and private-paying residents were classified into 1 of 34 Resource Utilization Groups for purposes of establishing payment rates.

For 2009 and 2010, nursing facility operating rates were paid under Minn. Stat. § 256B.441, which contains the methodology referred to as “rebasing.” The rebased operating rates were being phased in over an eight-year period, based on a percentage of the rebased rates and a percentage of the prior rates determined under the Alternate Payment System. The rebased portions of the operating rates were determined based on an annual statistical and cost report filed, subject to limitations.

As a result of the 2011 legislative session, rebasing was discontinued. Consequently, the operating rates will remain at the levels established on October 1, 2010, unless there are subsequent legislative changes.

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.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

12. Third-Party Reimbursement Agreements (Continued)

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 federal 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.

Laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Occupancy Percentages

During the year ended December 31, 2010, the occupancy percentage and the percentages of residents covered by the Medicaid and Medicare programs were as follows:

Total occupancy	98.5%
Medicaid	71.3
Medicare	1.6

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

The following major fund had deficit net assets as of December 31, 2010:

Prairieview Place Enterprise Fund	<u>\$ 204,831</u>
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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

2. Stewardship, Compliance, and Accountability (Continued)

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, 2010:

	Expenditures	Budget	Excess
General Fund	\$ 3,826,701	\$ 3,754,918	\$ 71,783
Road and Bridge Special Revenue Fund	3,998,965	3,520,000	478,965

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	\$	6,019,390
Investments		133,262
Restricted assets		
Cash and pooled investments		81,896
Investments		40,616
Residents' trust fund		858
Fiduciary funds		
Cash and pooled investments		
Agency funds		155,144
Total Cash and Investments	\$	6,431,166

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County's deposit policy for custodial credit risk provides that the Auditor/Treasurer shall ensure that a bond, pledged collateral, or depository insurance is provided to protect all public deposits. As of December 31, 2010, the County's deposits were not exposed to custodial credit risk.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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
- (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.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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.

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, 2010, and information relating to potential investment risks:

<u>Investment Type</u>	<u>Credit Risk</u>		<u>Concentration Risk</u>	<u>Interest Rate Risk</u>	<u>Carrying (Fair) Value</u>
	<u>Credit Rating</u>	<u>Rating Agency</u>	<u>Over 5 Percent of Portfolio</u>	<u>Maturity Date</u>	
U.S. government agency securities					
Freddie Mac	Aaa	Moody's	22%	03/15/2020	\$ 100,306
Freddie Mac	Aaa	Moody's	22	01/15/2025	100,076
Total Freddie Mac					\$ 200,382

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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. Treasury Strip	N/A	N/A		08/15/2013	\$ 212,367
Investment pools/mutual funds					
Federated U.S. Government Fund	AAA	S&P			\$ 35,931
MAGIC Fund	N/A	N/A			6,553
Total investment pools/mutual funds			N/A		\$ 42,484
Total investments					\$ 455,233
Deposits					5,974,433
Change funds					1,500
Total Cash and Investments					\$ 6,431,166

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

2. Receivables

Receivables as of December 31, 2010, 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	\$ 142,952
Special assessments	11,709
Accounts	33,842
Interest	3,355
Due from other governments	3,730,007
Total Governmental Activities	\$ 3,921,865
Business-Type Activities	
Accounts receivable	\$ 220,948

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2010, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 176,352	\$ -	\$ -	\$ 176,352
Right-of-way	478,548	-	-	478,548
Construction in progress	10,000	-	-	10,000
Total capital assets not depreciated	<u>\$ 664,900</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 664,900</u>
Capital assets depreciated				
Buildings	\$ 5,231,233	\$ -	\$ -	\$ 5,231,233
Land improvements	61,502	76,083	-	137,585
Machinery, furniture, and equipment	4,400,361	259,478	-	4,659,839
Infrastructure	35,481,835	1,268,832	-	36,750,667
Total capital assets depreciated	<u>\$ 45,174,931</u>	<u>\$ 1,604,393</u>	<u>\$ -</u>	<u>\$ 46,779,324</u>
Less: accumulated depreciation for				
Buildings	\$ 1,635,443	\$ 114,539	\$ -	\$ 1,749,982
Land improvements	24,987	5,630	-	30,617
Machinery, furniture, and equipment	3,186,375	261,807	-	3,448,182
Infrastructure	8,611,923	735,015	-	9,346,938
Total accumulated depreciation	<u>\$ 13,458,728</u>	<u>\$ 1,116,991</u>	<u>\$ -</u>	<u>\$ 14,575,719</u>
Total capital assets depreciated, net	<u>\$ 31,716,203</u>	<u>\$ 487,402</u>	<u>\$ -</u>	<u>\$ 32,203,605</u>
Governmental Activities Capital Assets, Net	<u>\$ 32,381,103</u>	<u>\$ 487,402</u>	<u>\$ -</u>	<u>\$ 32,868,505</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	504,319	6,158	-	510,477
Total capital assets depreciated	<u>\$ 6,946,305</u>	<u>\$ 6,158</u>	<u>\$ -</u>	<u>\$ 6,952,463</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Business-Type Activities (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	\$ 2,247,903	\$ 227,698	\$ -	\$ 2,475,601
Land improvements	39,134	886	-	40,020
Machinery, furniture, and equipment	417,560	23,303	-	440,863
Total accumulated depreciation	\$ 2,704,597	\$ 251,887	\$ -	\$ 2,956,484
Total capital assets depreciated, net	\$ 4,241,708	\$ (245,729)	\$ -	\$ 3,995,979
Business-Type Activities				
Capital Assets, Net	<u>\$ 4,257,883</u>	<u>\$ (245,729)</u>	<u>\$ -</u>	<u>\$ 4,012,154</u>

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

Governmental Activities	
General government	\$ 108,644
Public safety	52,734
Highways and streets, including depreciation of infrastructure assets	944,524
Social services	6,715
Sanitation	3,426
Culture and recreation	948
Total Depreciation Expense - Governmental Activities	<u>\$ 1,116,991</u>
Business-Type Activities	
Traverse Care Center	\$ 205,452
Prairieview Place	46,435
Total Depreciation Expense - Business-Type Activities	<u>\$ 251,887</u>

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

4. Investment in Joint Venture (Continued)

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. Subsequent to December 31, 2010, it was decided to discontinue operations of the home health provider. It is uncertain if there will be any assets to distribute once the dissolution is complete and, therefore, the balance in this investment has been reduced to \$0 as of December 31, 2010. The investment balance at December 31, 2010, is as follows:

Initial contribution	\$	95,000
Traverse Care Center's share of 2007 net loss		(41,590)
2008 contribution to joint venture		57,000
Traverse Care Center's share of 2008 net loss		(93,438)
Traverse Care Center's share of 2009 net income		12,768
Traverse Care Center's share of 2010 net loss		(29,740)
		-
Ending Equity in Joint Venture	\$	-

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

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2010, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Road and Bridge Special Revenue Fund Social Services Special Revenue Fund Prairieview Place Enterprise Fund	\$ 961 48,747 175
Total due to General Fund		\$ 49,883
Road and Bridge Special Revenue Fund	General Fund	2,173
Total Due To/From Other Funds		\$ 52,056

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds (Continued)

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

2. Advances From/To Other Funds

<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 Enterprise Fund to the Prairieview Place Enterprise Fund was for payment of debt issued for the construction of the congregate housing project.

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2010, consisted of the following:

Transfers to Prairieview Place Enterprise Fund from Traverse Care Center Enterprise Fund	<u>\$ 24,804</u>	To properly show share of lease rent
---	------------------	---

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2010, were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts	\$ 224,847	\$ 20,692
Salaries	36,451	-
Contracts	13,869	-
Due to other governments	35,647	-
Interest	39,823	70,687
Residents' trust fund	-	858
Rent deposits	-	9,105
Other current liabilities	-	6,190
	<hr/>	<hr/>
Total Payables	<u>\$ 350,637</u>	<u>\$ 107,532</u>

2. Deferred Revenue

Deferred revenue as of December 31, 2010, for the County is as follows:

	<u>Deferred Unavailable</u>	<u>Deferred Unearned</u>
Taxes and special assessments	\$ 99,406	\$ -
State-aid highway allotments	2,051,886	-
Charges for services	81,437	-
Grants	437,698	-
Interest	2,876	-
Other	635	-
	<hr/>	<hr/>
Total Deferred	<u>\$ 2,673,938</u>	<u>\$ -</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Construction Commitments

The government has active construction projects as of December 31, 2010. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Highways and streets	\$ 276,381	\$ 2,014

4. Leases

Capital Leases

The County has entered into lease agreements as lessee for financing the acquisition of certain equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. These capital leases consist of the following at December 31, 2010:

Leases	Maturity	Installment	Payment Amount	Original	Balance
Governmental Activities					
Social Services building	2014	Semi-Annual	\$ 12,900	\$ 300,000	\$ 91,289
2009 Dodge Charger	2012	Annual	9,229	33,227	16,570
2010 Crown Victoria	2012	Annual	8,317	23,199	14,882
2010 phone system	2015	Monthly	1,285	69,101	63,905
Total Governmental Activities Capital Leases					\$ 186,646

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Leases

Capital Leases (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2010, were as follows:

Year Ending December 31	Governmental Activities
2011	\$ 58,769
2012	58,768
2013	41,223
2014	40,483
2015	8,997
Total minimum lease payments	\$ 208,240
Less: amount representing interest	(21,594)
Net Present Value of Minimum Lease Payments	\$ 186,646

5. Long-Term Debt

Governmental Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2010
General obligation bonds					
2006 G.O. Jail Bonds	2027	\$50,000 - \$185,000	4.00 - 4.25	\$ 2,515,000	\$ 2,285,000
Add: unamortized premium					39,030
Total General Obligation Bonds, Net					\$ 2,324,030

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

5. 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, 2010</u>
USDA Loan	2014	\$44,444	-	\$ 400,000	<u>\$ 151,851</u>
2005 G.O. Governmental Housing Refunding Bonds	2026	\$30,000 - \$85,000	5.00	\$ 1,190,000	\$ 965,000
Less: unamortized discount					<u>(4,347)</u>
Total G.O. Bonds, Net					<u>\$ 960,653</u>
2003 G.O. Nursing Home Revenue Bonds	2033	\$75,000 - \$235,000	3.25 - 5.30	\$ 3,745,000	\$ 3,350,000
Add: unamortized premium					<u>8,552</u>
Total Revenue Bonds, Net					<u>\$ 3,358,552</u>

6. Debt Service Requirements

Debt service requirements at December 31, 2010, were as follows:

Governmental Activities

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 95,000	\$ 91,250
2012	100,000	87,350
2013	100,000	83,350
2014	105,000	79,250
2015	110,000	74,950
2016 - 2020	625,000	303,250
2021 - 2025	785,000	162,019
2026 - 2027	365,000	15,619
Total	<u>\$ 2,285,000</u>	<u>\$ 897,038</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

6. Debt Service Requirements (Continued)

Business-Type Activities

Year Ending December 31	General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
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	45,000	41,750	95,000	155,985
2015	50,000	39,500	100,000	151,548
2016 - 2020	290,000	157,750	575,000	678,044
2021 - 2025	365,000	77,750	720,000	515,519
2026 - 2030	85,000	4,250	915,000	303,390
2031 - 2033	-	-	675,000	54,722
Total	\$ 965,000	\$ 459,500	\$ 3,350,000	\$ 2,352,124

Year Ending December 31	USDA Loan Principal
2011	\$ 44,444
2012	44,444
2013	44,444
2014	18,519
Total	\$ 151,851

7. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
G.O. jail bonds payable	\$ 2,375,000	\$ -	\$ 90,000	\$ 2,285,000	\$ 95,000
Unamortized bond premium	41,482	-	2,452	39,030	-
Capital leases	135,421	92,300	41,075	186,646	49,234
Compensated absences	232,926	195,043	180,214	247,755	152,858
Governmental Activities					
Long-Term Liabilities	\$ 2,784,829	\$ 287,343	\$ 313,741	\$ 2,758,431	\$ 297,092

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

7. Changes in Long-Term Liabilities (Continued)

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
Bonds payable					
General obligation refunding bonds	\$ 1,005,000	\$ -	\$ 40,000	\$ 965,000	\$ 40,000
Revenue bonds	3,435,000	-	85,000	3,350,000	85,000
Premium/discounts on bonds	4,660	-	455	4,205	-
Total bonds payable	\$ 4,444,660	\$ -	\$ 125,455	\$ 4,319,205	\$ 125,000
Loan payable	196,296	-	44,445	151,851	44,444
Compensated absences	100,661	-	100,661	-	-
Business-Type Activities Long-Term Liabilities	<u>\$ 4,741,617</u>	<u>\$ -</u>	<u>\$ 270,561</u>	<u>\$ 4,471,056</u>	<u>\$ 169,444</u>

4. Pension Plans

A. Defined Benefit Plans

Plan Description

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

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan, and benefits vest after three years of credited service (five years for those first eligible for membership after June 30, 2010).

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute. Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for General Employees Retirement Fund Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. Traverse County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.00 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.40 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2010:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.00
Public Employees Police and Fire Fund	14.10
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2010, 2009, and 2008, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2010	2009	2008
General Employees Retirement Fund	\$ 225,159	\$ 221,056	\$ 205,933
Public Employees Police and Fire Fund	36,986	33,821	23,166
Public Employees Correctional Fund	30,610	29,641	29,318

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

B. Defined Contribution Plan

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employees may

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans

B. Defined Contribution Plan (Continued)

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, 2010, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 2,427	\$ 2,427
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description

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

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Traverse County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2010, there were 111 participants in the plan, including 47 retirees.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans

C. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the plan.

ARC	\$	862,981
Interest on net OPEB obligation		21,882
Adjustment to ARC		(29,203)

Annual OPEB cost (expense)	\$	855,660
Contributions made		376,049

Increase in net OPEB obligation	\$	479,611
Net OPEB Obligation - Beginning of Year		505,932
Adjustment to the Net OPEB Obligation - Beginning of Year		(19,662)

Net OPEB Obligation - End of Year	\$	965,881

The County's annual OPEB cost for December 31, 2010, was \$855,660. The percentage of annual OPEB cost contributed to the plan was 43.9 percent, and the net OPEB obligation for 2010 was \$965,881. The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 and 2010 was as follows:

<u>Fiscal Year-End</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2009	\$ 862,981	\$ 357,049	41.4%	\$ 505,932
December 31, 2010	855,660	376,049	43.9	965,881

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans

C. Other Postemployment Benefits (OPEB) (Continued)

Funded Status and Funding Progress

Governmental Activities

As of January 1, 2011, the most recent actuarial valuation date, the plan had no funding. The actuarial accrued liability for benefits was \$7,669,790, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$7,669,790. The covered payroll (annual payroll of active employees covered by the plan) was \$2,541,642, and the ratio of the UAAL to the covered payroll was 301.8 percent.

Business-Type Activities

As of December 31, 2010, the most recent actuarial valuation date, the plan had no funding. The Care Center's unfunded actuarial accrued liability (UAAL) was \$2,441,583. The annual payroll for active employees covered by the plan in the actuarial valuation was \$0 as most of the Care Center's employees became employees of LSS effective with the lease of the facility on December 31, 2010.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress - Other Postemployment Benefits, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Pension Plans

C. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2010, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of investment expenses), which is Traverse County's implicit rate of return on the General Fund. The annual health care cost trend is 9.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 8 years. Both rates included a 3.5 percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2010, was 28 years.

5. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$450,000 per claim in 2010 and 2011. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

5. Risk Management (Continued)

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

6. Concentration of Credit Risk

The Traverse Care Center grants credit without collateral to its residents, most of whom are local individuals and are insured under third-party payor agreements. The mix of receivables from residents and third-party payors are as follows at December 31, 2010:

Medicare	5%
Medicaid	1
Resident and other third-party payors and LSS	<u>94</u>
Total	<u><u>100%</u></u>

7. Summary of Significant Contingencies and Other Items

A. Claims and Litigation

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

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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

B. Residents' Trust Deposits

According to the terms of the admissions agreement, the Traverse Care Center is the trustee of the residents 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 account 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 2010 was \$73,787, based on a cost allocation plan developed by Fiscal Officer, Karen Folkens.

Complete financial statements for the Stevens Traverse Grant Public Health Nursing Service can be obtained from:

Stevens Traverse Grant Public Health Nursing Service
621 Pacific Avenue
Morris, Minnesota 56267

Mid-State Community Health Services

Grant, Pope, Stevens, and Traverse Counties entered into a joint powers agreement creating and operating the Mid-State Community Health Services grant pursuant to Minn. Stat. § 471.59 (following a budget approved by the four-county Board). Stevens Traverse Grant Public Health Nursing Service receives and administers the grant money.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Mid-State Community Health Services (Continued)

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

Complete financial information can be obtained from:

Horizon Community Health Board
211 East Minnesota Avenue, Suite 100
Glenwood, Minnesota 56334

Rainbow Rider Transit Board

Douglas, Pope, Stevens, and Traverse Counties entered into a joint powers agreement to establish the West Central Multi-County Joint Powers Transit Board (Rainbow Rider) effective December 1, 1994, and empowered under Minn. Stat. § 471.59. Effective January 13, 2000, the Board changed its name from the West Central Multi-County Joint Powers Board to Rainbow Rider Transit Board. The purpose of the Board is to provide coordinated service delivery and a funding source for public transportation. The Board consists of two members appointed by each member county from its County Board for terms of one year each. Effective January 1, 2011, Grant County became a County member.

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 contributed \$103 to the Joint Powers in 2010.

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

Minnesota River Basin Joint Powers
184 Trafton Service Center
Minnesota State University at Mankato
Mankato, Minnesota 56001

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

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

Prime West Central County-Based Purchasing Initiative

The Prime West Central County-Based Purchasing Initiative was established in December 1998 by a joint powers agreement among Traverse County and nine other counties under the authority of Minn. Stat. § 471.59. The purpose of this agreement is to plan and administer a multi-county, county-based purchasing program for medical assistance and general assistance medical care services and other health care programs as authorized by Minn. Stat. § 256B.692.

Control of the Prime West Central County-Based Purchasing Initiative is vested in a Joint Powers Board, comprising one Commissioner from each member county. Each member of the Board is appointed by the County Commissioners of the county he or she represents.

In the event of termination of the joint powers agreement, all property purchased or owned pursuant to this agreement shall be sold, and the proceeds, together with monies on hand, will be distributed to the current members based on their proportional share of each member's county-based purchasing eligible population.

Financing is provided by medical assistance and general assistance medical care payments from the Minnesota Department of Human Services, initial start-up loans from the member counties, and by proportional contributions from member counties, if necessary, to cover operational costs. The County did not contribute any funds in 2010.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Prime West Central County-Based Purchasing Initiative (Continued)

Complete financial information can be obtained from:

Prime West Health Systems
2209 Jefferson Street
Suite 101
Alexandria, Minnesota 56308

Central Minnesota Regional Radio Board

The Central Minnesota Regional Radio Board was established in 2007, under the authority conferred upon the member parties by Minn. Stat. §§ 471.59 and 403.39, and includes the City of St. Cloud and the Counties of Benton, Big Stone, Douglas, Grant, Kandiyohi, Meeker, Mille Lacs, Morrison, Otter Tail, Pope, Sherburne, Stearns, Stevens, Swift, Todd, Traverse, Wadena, Wilkin, and Wright.

The purpose of the Central Minnesota Regional Radio Board is to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER) owned and operated by the State of Minnesota. The Central Minnesota Regional Radio Board is composed of one Commissioner of each county appointed by the respective County Board and one City Council member from the city appointed by the City Council, as provided in the Central Minnesota Regional Radio Board's by-laws.

In the event of dissolution of the Central Minnesota Regional Radio Board, all property, assets, and funds of the Board shall be distributed to the parties of the agreement upon termination in direct proportion to their participation and contribution. Any city or county that has withdrawn from the agreement prior to termination of the Board shall share in the distribution of property, assets, and funds of the Board only to the extent they shared in the original expense.

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Central Minnesota Regional Radio Board (Continued)

Traverse County contributed \$842 to the Joint Powers in 2010. Complete financial information can be obtained from the Central Minnesota Regional Radio Board at:

City of St. Cloud
Office of the Mayor, City Hall
400 Second Street South
St. Cloud, Minnesota 56303

As of June 1, 2011, the Central Minnesota Regional Radio Board changed its name to the Central Minnesota Emergency Services Board.

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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

D. Jointly-Governed Organizations

Western Area City/County Co-Op

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

District IV Transportation Planning

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

Traverse County Connections

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

Control of Traverse County Connections is vested in a collaborative governing board and an Executive Committee. The Board is composed of one member and an alternate from each agency involved, except for Prairie Community Services. The Board has revenue authority and approves the annual budget. The Executive Committee

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations

Traverse County Connections (Continued)

comprises a representative from each agency and a parent nominated from the area. The Executive Committee has design and policy oversight authority as well as authority over expenditures.

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

Financing is provided by state and federal grants and contributions from the member parties. Traverse County, in an agent capacity, reports the cash transactions of Traverse County Connections as an agency fund on its financial statements. The County contributed \$10,000 in 2010.

Region 4 South Adult Mental Health Consortium

Douglas, Grant, Pope, Stevens and Traverse Counties entered into a joint powers agreement creating and operating Region 4 South Adult Mental Health Consortium, pursuant to Minn. Stat. § 471.59, to provide a system of care that will serve the needs of adults with serious and persistent mental illness for the mutual benefit of each of the joint participants.

Control of the Consortium is vested in a governing board, which consists of each participating county's Director of Social Services, Family Services, or Human Services, as the case may be. The governing board operates under the ultimate authority of the Executive Commissioner Board. The Executive Commissioner Board is composed of one Commissioner of each county appointed by its respective County Board.

Any county may withdraw by providing notice to the chair of the Board 90 days prior to the date of the proposed withdrawal. Withdrawal does not act to discharge any liability incurred or chargeable to any county before the effective date of the withdrawal.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations

Region 4 South Adult Mental Health Consortium (Continued)

Dissolution of the Consortium shall occur by unanimous vote of the counties, or when the membership in the Consortium is reduced to less than two counties. Upon dissolution of the Consortium, the member counties shall share in the current liabilities and current financial assets, including real property, of the Consortium equally if no county has contributed during the term of the Consortium or based on their percentage of contribution to the Consortium's budget during the period applicable to such liabilities and assets.

Financing is predominantly provided by state grants. Grant County, in a fiscal host capacity, reports the cash transactions of the Consortium as an agency fund on its financial statements.

E. Related Organization

Traverse County Housing and Redevelopment Authority (HRA)

The Traverse County HRA has its own governing board appointed by the Traverse County Board of Commissioners. The County's accountability for the organization does not extend beyond making the appointments. In 2005, the HRA issued \$1,190,000 of General Obligation Governmental Housing Refunding Bonds on behalf of Traverse County, which is responsible for making the payments. The balance of this debt outstanding is \$960,653, net of discount and unamortized issuance costs.

F. Lease of Property

On December 1, 2010, Traverse County entered into a lease with LSS of Traverse, LLC (LSS), whereby LSS is renting the property of Prairieview Place and operating it as a congregate housing facility. The lease is for three years and calls for monthly payments to be made by LSS to Traverse County in amounts equal to the required debt service of Prairieview Place's debts, approximately \$7,000 per month. The County received one payment in 2010 as a result of this lease. Prairieview Place incurred labor expenses through November 30, 2010, and all unpaid amounts for labor as of that date were paid to employees in December 2010. Prairieview Place employees became employees of LSS on December 1, 2010.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

F. Lease of Property (Continued)

On December 1, 2010, Traverse County entered into a lease with LSS of Traverse, LLC (LSS), whereby LSS is renting the property of the Care Center and operating it as a skilled nursing facility. The lease is for three years and calls for monthly payments to be made by LSS to Traverse County in amounts equal to the required debt service of the Care Center's debts, approximately \$25,000 per month. The Care Center received one payment in 2010 as a result of this lease. As part of the lease agreement, LSS also purchased the Care Center's 0-to-60-day accounts receivable at 80 percent of the book value, causing the Traverse Care Center Enterprise Fund to recognize a loss on the sale of these receivables of \$49,396. LSS' payments for the purchased receivables are scheduled over the term of the lease with the first payment due June 1, 2011, however, it is expected that most of those receivables will be collected within one year. The Care Center incurred labor expenses through November 30, 2010, and all unpaid amounts for labor as of that date were paid to employees in December 2010. Most Care Center employees became employees of LSS on December 1, 2010.

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REQUIRED SUPPLEMENTARY INFORMATION

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,716,608	\$ 2,716,608	\$ 2,640,238	\$ (76,370)
Special assessments	-	-	58,522	58,522
Licenses and permits	8,570	8,570	12,340	3,770
Intergovernmental	286,050	286,050	540,537	254,487
Charges for services	216,800	216,800	186,965	(29,835)
Fines and forfeits	2,000	2,000	58	(1,942)
Investment earnings	45,000	45,000	70,350	25,350
Miscellaneous	557,993	557,993	690,923	132,930
Total Revenues	\$ 3,833,021	\$ 3,833,021	\$ 4,199,933	\$ 366,912
Expenditures				
Current				
General government				
Commissioners	\$ 190,754	\$ 190,754	\$ 192,483	\$ (1,729)
Courts	2,000	2,000	1,138	862
Law library	8,000	8,000	7,455	545
County coordinator	100,173	100,173	98,166	2,007
County auditor/treasurer	198,437	198,437	218,067	(19,630)
License bureau	71,481	71,481	83,739	(12,258)
County treasurer	-	-	4,349	(4,349)
County assessor	146,768	146,768	136,980	9,788
Elections	20,000	20,000	36,265	(16,265)
Accounting and auditing	53,000	53,000	61,215	(8,215)
Data processing	129,145	129,145	204,501	(75,356)
Attorney	78,987	78,987	90,284	(11,297)
Recorder	145,546	145,546	162,327	(16,781)
Buildings and plant	213,106	213,106	129,427	83,679
Veterans service officer	58,265	58,265	58,294	(29)
Unallocated	246,465	246,465	97,921	148,544
Total general government	\$ 1,662,127	\$ 1,662,127	\$ 1,582,611	\$ 79,516
Public safety				
Sheriff	\$ 587,764	\$ 587,764	\$ 608,257	\$ (20,493)
Boat and water	3,000	3,000	1,523	1,477
Coroner	4,000	4,000	6,543	(2,543)
Enhanced 911 system	235,054	235,054	249,054	(14,000)
Jail	280,537	280,537	286,935	(6,398)
Probation officer	321,601	321,601	254,555	67,046
Civil defense	58,314	58,314	116,528	(58,214)
Total public safety	\$ 1,490,270	\$ 1,490,270	\$ 1,523,395	\$ (33,125)

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

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<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	\$ 112,601	\$ 112,601	\$ 121,727	\$ (9,126)
Health				
Nursing service	\$ 89,638	\$ 89,638	\$ 78,760	\$ 10,878
Transportation	-	-	24,471	(24,471)
Total health	\$ 89,638	\$ 89,638	\$ 103,231	\$ (13,593)
Culture and recreation				
County fair	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Parks	10,692	10,692	7,778	2,914
Regional library	39,343	39,343	38,893	450
Total culture and recreation	\$ 60,035	\$ 60,035	\$ 56,671	\$ 3,364
Conservation of natural resources				
County extension	\$ 137,810	\$ 137,810	\$ 131,564	\$ 6,246
Soil and water conservation	147,030	147,030	201,886	(54,856)
Weed control	52,627	52,627	52,609	18
Total conservation of natural resources	\$ 337,467	\$ 337,467	\$ 386,059	\$ (48,592)
Economic development				
Community development	\$ 2,780	\$ 2,780	\$ 2,872	\$ (92)
Debt service				
Principal	\$ -	\$ -	\$ 41,075	\$ (41,075)
Interest	-	-	8,697	(8,697)
Administrative charges	-	-	363	(363)
Total debt service	\$ -	\$ -	\$ 50,135	\$ (50,135)
Total Expenditures	\$ 3,754,918	\$ 3,754,918	\$ 3,826,701	\$ (71,783)

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

***EXHIBIT A-1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<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	\$ 78,103	\$ 78,103	\$ 373,232	\$ 295,129
Other Financing Sources (Uses)				
Capital lease issued	-	-	92,300	92,300
Net Change in Fund Balance	\$ 78,103	\$ 78,103	\$ 465,532	\$ 387,429
Fund Balance - January 1	<u>1,581,614</u>	<u>1,581,614</u>	<u>1,581,614</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 1,659,717</u>	<u>\$ 1,659,717</u>	<u>\$ 2,047,146</u>	<u>\$ 387,429</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,444,123	\$ 1,444,123	\$ 1,397,905	\$ (46,218)
Intergovernmental	2,089,877	2,089,877	3,236,425	1,146,548
Charges for services	140,000	140,000	218,520	78,520
Miscellaneous	85,000	85,000	48,126	(36,874)
Total Revenues	\$ 3,759,000	\$ 3,759,000	\$ 4,900,976	\$ 1,141,976
Expenditures				
Current				
Highways and streets				
Administration	\$ 458,314	\$ 458,314	\$ 358,154	\$ 100,160
Maintenance	1,262,769	1,262,769	1,345,040	(82,271)
Construction	1,014,143	1,014,143	1,246,723	(232,580)
Equipment maintenance and shop	721,785	721,785	620,037	101,748
Materials and services for resale	62,989	62,989	234,512	(171,523)
Total highways and streets	\$ 3,520,000	\$ 3,520,000	\$ 3,804,466	\$ (284,466)
Intergovernmental				
Highways and streets	-	-	194,499	(194,499)
Total Expenditures	\$ 3,520,000	\$ 3,520,000	\$ 3,998,965	\$ (478,965)
Net Change in Fund Balance	\$ 239,000	\$ 239,000	\$ 902,011	\$ 663,011
Fund Balance - January 1	883,301	883,301	883,301	-
Increase (decrease) in reserved for inventories	-	-	8,475	8,475
Fund Balance - December 31	\$ 1,122,301	\$ 1,122,301	\$ 1,793,787	\$ 671,486

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 819,281	\$ 819,281	\$ 768,854	\$ (50,427)
Intergovernmental	577,781	577,781	784,419	206,638
Charges for services	37,000	37,000	24,193	(12,807)
Miscellaneous	94,732	94,732	60,326	(34,406)
Total Revenues	\$ 1,528,794	\$ 1,528,794	\$ 1,637,792	\$ 108,998
Expenditures				
Current				
Human services				
Income maintenance	\$ 538,944	\$ 538,944	\$ 558,634	\$ (19,690)
Social services	989,850	989,850	734,089	255,761
Total Expenditures	\$ 1,528,794	\$ 1,528,794	\$ 1,292,723	\$ 236,071
Net Change in Fund Balance	\$ -	\$ -	\$ 345,069	\$ 345,069
Fund Balance - January 1	1,728,852	1,728,852	1,728,852	-
Fund Balance - December 31	\$ 1,728,852	\$ 1,728,852	\$ 2,073,921	\$ 345,069

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT A-4

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2010**

Governmental Activities

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2009	\$ -	\$ 8,043,747	\$ 8,043,747	0.0%	\$ 2,117,166	379.9%
January 1, 2011	-	7,669,790	7,669,790	0.0	2,541,642	301.8

Business-Type Activities

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2009	\$ -	\$ 3,049,073	\$ 3,049,073	0.0%	\$ 1,278,309	239%
January 1, 2011	-	2,441,583	2,441,583	0.0	-	N/A

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2010**

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. 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, 2010, expenditures exceeded appropriations in the General Fund by \$71,783 and the Road and Bridge Special Revenue Fund by \$478,965. These expenditures in excess of budget were funded by greater than anticipated revenues in the General Fund and Road and Bridge Special Revenue Fund.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Other Postemployment Benefits Funded Status

The County implemented the requirements of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for the fiscal year ended December 31, 2009. Currently, only two actuarial valuations are available. Future reports will provide additional trend analysis to meet the three most recent valuation funding status requirements as the information becomes available.

See Note 4.C. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

SUPPLEMENTARY INFORMATION

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUND

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

DEBT SERVICE FUNDS

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**

EXHIBIT B-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2010**

	Building Special Revenue	Jail/LEC Debt Service	Total
<u>Assets</u>			
Cash and pooled investments	\$ 604,604	\$ 144,171	\$ 748,775
Undistributed cash in agency funds	2,578	4,955	7,533
Taxes receivable			
Current	1,114	2,124	3,238
Prior	345	2,033	2,378
	\$ 608,641	\$ 153,283	\$ 761,924
Total Assets	\$ 608,641	\$ 153,283	\$ 761,924
<u>Liabilities and Fund Balances</u>			
Liabilities			
Deferred revenue - unavailable	\$ 956	\$ 2,401	\$ 3,357
Fund Balances			
Reserved for debt service	\$ -	\$ 150,882	\$ 150,882
Unreserved, undesignated	607,685	-	607,685
Total Fund Balances	\$ 607,685	\$ 150,882	\$ 758,567
Total Liabilities and Fund Balances	\$ 608,641	\$ 153,283	\$ 761,924

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT B-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Building Special Revenue	Jail/LEC Debt Service	Total
Revenues			
Taxes	\$ 60,512	\$ 117,690	\$ 178,202
Intergovernmental	3,275	-	3,275
Total Revenues	\$ 63,787	\$ 117,690	\$ 181,477
Expenditures			
Debt service			
Principal	\$ -	\$ 90,000	\$ 90,000
Interest	-	94,950	94,950
Total Expenditures	\$ -	\$ 184,950	\$ 184,950
Net Change in Fund Balance	\$ 63,787	\$ (67,260)	\$ (3,473)
Fund Balance - January 1	543,898	218,142	762,040
Fund Balance - December 31	\$ 607,685	\$ 150,882	\$ 758,567

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT B-3

**BUDGETARY COMPARISON SCHEDULE
BUILDING SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 63,041	\$ 63,041	\$ 60,512	\$ (2,529)
Intergovernmental	1,959	1,959	3,275	1,316
Total Revenues	\$ 65,000	\$ 65,000	\$ 63,787	\$ (1,213)
Fund Balance - January 1	543,898	543,898	543,898	-
Fund Balance - December 31	<u>608,898</u>	<u>608,898</u>	<u>607,685</u>	<u>(1,213)</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT B-4

**BUDGETARY COMPARISON SCHEDULE
JAIL/LEC DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 120,715	\$ 120,715	\$ 117,690	\$ (3,025)
Expenditures				
Debt service				
Principal	\$ 100,000	\$ 100,000	\$ 90,000	\$ 10,000
Interest	98,818	98,818	94,950	3,868
Total Expenditures	\$ 198,818	\$ 198,818	\$ 184,950	\$ 13,868
Net Change in Fund Balance	\$ (78,103)	\$ (78,103)	\$ (67,260)	\$ 10,843
Fund Balance - January 1	218,142	218,142	218,142	-
Fund Balance - December 31	\$ 140,039	\$ 140,039	\$ 150,882	\$ 10,843

**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**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,559	\$ 763,680	\$ 765,239	\$ -
<u>Liabilities</u>				
Due to other governments	\$ 1,559	\$ 763,680	\$ 765,239	\$ -
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 25,216	\$ 460,299	\$ 462,665	\$ 22,850
<u>Liabilities</u>				
Due to other governments	\$ 25,216	\$ 460,299	\$ 462,665	\$ 22,850
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 84,000	\$ 2,943,661	\$ 2,926,900	\$ 100,761
<u>Liabilities</u>				
Due to other governments	\$ 84,000	\$ 2,943,661	\$ 2,926,900	\$ 100,761

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 18,617</u>	<u>\$ 1,854,636</u>	<u>\$ 1,873,181</u>	<u>\$ 72</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 18,617</u>	<u>\$ 1,854,636</u>	<u>\$ 1,873,181</u>	<u>\$ 72</u>
 <u>TRAVERSE COUNTY CONNECTIONS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 35,541	\$ 22,570	\$ 38,313	\$ 19,798
Due from other funds	5,343	-	5,343	-
Due from other governments	-	3,677	-	3,677
Total Assets	<u>\$ 40,884</u>	<u>\$ 26,247</u>	<u>\$ 43,656</u>	<u>\$ 23,475</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 40,884</u>	<u>\$ 26,247</u>	<u>\$ 43,656</u>	<u>\$ 23,475</u>
 <u>COMMUNITIES UNITED IN PARTNERSHIP</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 11,663</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,663</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 11,663</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,663</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT C-1
(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 176,596	\$ 6,044,846	\$ 6,066,298	\$ 155,144
Due from other funds	5,343	-	5,343	-
Due from other governments	-	3,677	-	3,677
	\$ 181,939	\$ 6,048,523	\$ 6,071,641	\$ 158,821
	\$ 181,939	\$ 6,048,523	\$ 6,071,641	\$ 158,821
<u>Liabilities</u>				
Due to other governments	\$ 181,939	\$ 6,048,523	\$ 6,071,641	\$ 158,821
	\$ 181,939	\$ 6,048,523	\$ 6,071,641	\$ 158,821

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OTHER SCHEDULES

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF DEPOSITS AND INVESTMENTS
DECEMBER 31, 2010**

	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Fair Value</u>
Cash and Pooled Investments			
Cash on hand	-	-	\$ 1,500
Noninterest-bearing checking (three)	-	Continuous	1,152,538
Interest-bearing checking (three)	0.05 to 0.25	Continuous	216,758
Money market savings (three)	0.20 to 0.50	Continuous	3,925,511
Certificates of deposit (six)	1.00 to 1.59	March 2, 2011 to December 1, 2011	491,270
Mutual funds (two)	4.29	Continuous	42,484
U.S. Treasury strip	-	August 15, 2013	212,367
Freddie Mac (two)	3.00 to 4.50	March 15, 2020 to January 15, 2025	200,382
Broker-held money markets (two)	0.01 to 0.05	Continuous	13,620
Total Cash and Pooled Investments			<u>\$ 6,256,430</u>
Investments from Funds			
General Fund			
Certificates of deposit (two)	0.21 to 1.75	January 2, 2011 to November 19, 2011	<u>\$ 98,033</u>
Traverse Care Center Enterprise Fund			
Interest-bearing checking (two)	0.05 to 0.15	Continuous	\$ 25,149
Certificates of deposit (three)	1.00 to 1.75	January 2, 2011 to January 7, 2011	51,554
Total Traverse Care Center Enterprise Fund			<u>\$ 76,703</u>
Total Investments from Funds			<u>\$ 174,736</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Shared Revenue

State

Highway users tax	\$	2,531,865
Program aid		136,564
Market value credit (MVC)		29,443
Mobile home MVC		395
MVC - agricultural		74,435
PERA rate reimbursement		16,482
Disparity reduction aid		18,578
Police aid		33,821
Wetland reimbursement credit		8,210
		8,210

Total shared revenue

\$ 2,849,793

Reimbursement for Services

State

Minnesota Department of Human Services	\$	138,142
		138,142

Payments

Local

Local contributions	\$	19,290
Payments in lieu of taxes		20,300
		20,300

Total payments

\$ 39,590

Grants

State

Minnesota Department/Board of		
Corrections	\$	11,954
Public Safety		199,709
Natural Resources		2,476
Secretary of State		100
Human Services		222,409
Water and Soil Resources		54,776
Peace Officer Standards and Training Board		2,868
Pollution Control Agency		55,950
		55,950

Total state

\$ 550,242

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

***EXHIBIT D-2
(Continued)***

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Grants (Continued)

Federal

Department of	
Agriculture	\$ 52,752
Commerce	62,613
Transportation	104,410
Health and Human Services	336,612
Homeland Security	430,502
	<hr/>

Total Federal	\$ 986,889
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Total State and Federal Grants	\$ 1,537,131
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Total Intergovernmental Revenue	\$ 4,564,656
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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT D-3

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) Cluster		
State Administrative Matching Grants for SNAP	10.561	\$ 52,010
State Administrative Matching Grants for SNAP - ARRA	10.561	742
		<hr/>
Total U.S. Department of Agriculture		\$ 52,752
U.S. Department of Commerce		
Passed Through Minnesota Department of Public Safety and Central Minnesota Regional Radio Board		
Public Safety Interoperable Communications Grant Program	11.555	\$ 62,613
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	\$ 3,000
Temporary Assistance for Needy Families	93.558	42,645
Child Support Enforcement Cluster		
Child Support Enforcement	93.563	71,747
Child Support Enforcement - ARRA	93.563	4,936
Refugee and Entrant Assistance - State-Administered Programs	93.566	59
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	909
Foster Care Title IV-E Cluster		
Foster Care Title IV-E	93.658	36,745
Foster Care Title IV-E - ARRA	93.658	540
Social Services Block Grant	93.667	52,233
Children's Health Insurance Program	93.767	80
Medical Assistance Program	93.778	121,725
		<hr/>
Total U.S. Department of Health and Human Services		\$ 334,619

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT D-3
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Flood Mitigation Assistance	97.029	\$ 6,500
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	699,727
Emergency Management Performance Grants	97.042	11,144
Passed Through Minnesota Department of Public Safety and Central Minnesota Regional Radio Board		
Interoperable Emergency Communications	97.055	7,463
Homeland Security Grant Program	97.067	4,307
Total U.S. Department of Homeland Security		\$ 729,141
Total Federal Awards		\$ 1,179,125

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Traverse County. The County's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Traverse County under programs of the federal government for the year ended December 31, 2010. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Traverse County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Traverse County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 986,889
Grants received more than 60 days after year-end, deferred in 2010	
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	142
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	298,639
Grants deferred in 2009, recognized as revenue in 2010	
Highway Planning and Construction	(28,365)
Highway Planning and Construction - ARRA	(76,045)
Foster Care Title IV-E - ARRA	(35)
Child Support Enforcement	(2,100)
	(2,100)
Expenditures Per Schedule of Expenditures of Federal Awards	\$ 1,179,125

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

5. Subrecipients

Of the expenditures presented in the schedule, Traverse County did not pass any federal awards to subrecipients.

6. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

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 That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133."
- 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:
 - Disaster Grants - Public Assistance
(Presidentially Declared Disasters) CFDA #97.036
- 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 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 deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Statement on Auditing Standards 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis.

During our audit, we identified the following material adjustments.

- An adjustment was made to the Prairieview Place Enterprise Fund to record depreciation expense in the amount of \$46,435 for 2010.
- An adjustment was made to capital assets to remove infrastructure in the amount of \$2,560,284. In 2009, project 78-604-22 was recorded as an addition in the capital asset system in the amount of \$2,560,284, because it was substantially complete and put into service. Final work on the project in the amount of \$10,578 was completed in 2010, and the entire project was added to the capital asset system in the amount of \$2,570,862.

Proposed audit adjustments are reviewed and approved by the appropriate staff and are reflected in the financial statements. However, the inability to detect a material misstatement in the financial statements increases the likelihood that the financial statements will not be fairly presented.

We recommend the County establish review procedures to ensure all postings to the general ledger and supporting schedules are accurate and complete.

Client's Response:

Traverse 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.

08-1 Documenting and Monitoring Internal Controls

County management is responsible for the County's internal controls 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 has set up a committee to review these risk areas on an ongoing basis and discuss the need to change/improve controls as the environment changes.

ITEMS ARISING THIS YEAR

10-1 Preparation of the Schedule of Expenditures of Federal Awards

The Office of Management and Budget's (OMB) Circular A- 133, *Audits of States, Local Governments, and Non-Profit Organizations, Auditee Responsibilities*, subpart C § .300, requires, "The auditee shall (a) identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity; and (d) shall prepare appropriate financial statements, including the schedule of expenditures of federal awards in accordance with subpart C § .310."

Traverse County does not prepare a Schedule of Expenditures of Federal Awards (SEFA), nor does it adequately identify federal programs by amount received and expended, federal grantor agency, pass-through agency, and Catalog of Federal Domestic Assistance (CFDA) title and number as required under OMB Circular A-133.

This condition results in a deficiency in internal control over financial statement preparation and the reporting of federal financial assistance by the County. Since the County has not developed procedures for properly identifying all federal financial assistance, the County relies on its auditors for assistance with preparing the SEFA. Independent auditors cannot be considered part of the County's internal control over financial reporting.

We recommend that Traverse County management develop a process, including written procedures, that will allow staff to adequately identify federal revenues and accumulate the information needed to prepare the SEFA. Specific measures could include having departments inform accounting/finance when they have received a grant award, holding in suspense accounts until properly identified as to nature and source any intergovernmental revenue receipts, and comparing the prior year SEFA to the current year. For each federal award identified, the County should determine the correct program CFDA title and number, award number and year, federal grantor agency, pass-through agency, amount received and expended, and whether American Recovery and Reinvestment Act funding is involved. The federal CFDA website is available to assist in this process. Those responsible for compiling the SEFA should obtain the training necessary (through courses or reference materials) to understand the components of the SEFA and properly gather the correct information and maintain supporting documentation. The County should also reconcile the SEFA amounts to the general ledger and financial statements.

Client's Response:

Traverse County management will develop a process that will allow staff to adequately identify federal revenues and accumulate the information needed to prepare the SEFA.

10-2 Capital Assets

For financial reporting and asset management purposes, Traverse County is required to keep records of its capital assets. Traverse County's primary capital asset records are recorded on a separate software system maintained by the County Auditor/Treasurer's Office. Capital asset additions and deletions are entered into this system, and depreciation is calculated based on the estimated useful lives entered. Capital asset policies have been established by the County and identify a \$5,000 capital asset threshold; however, those policies do not address procedures for ensuring capital assets are properly recorded. During our review of the 2010 capital assets, we identified the following:

- For two of the new assets added to the capital asset system during 2010, the check numbers were accidentally entered into the system as the purchase price. A new monitor purchased for \$120 was included in the capital asset system as a \$66,752 addition. A new computer purchased for \$611 was included in the capital asset system as a \$65,534 addition.
- Infrastructure assets in the amount of \$2,560,284 recorded in the Highway Department's records and the capital asset system maintained by the County Auditor/Treasurer's Office in 2009 were added to those records again in 2010.

- Individual departments do not consistently notify the County Auditor/Treasurer's Office of capital asset purchases, sales, deletions, and transfers.
- For 2010, a list was not provided to the individual departments for the purpose of conducting an annual inventory to ensure the capital asset listing is accurate.

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

Procedures should be established that require department heads to communicate any changes in capital assets to the individual responsible for maintaining the capital assets system, at the time of the change. An inventory of capital assets should be performed annually and reconciled to the capital asset records. Finally, the capital asset records should be reviewed to ensure amounts recorded are reasonable and tie to other County records.

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

Client's Response:

Traverse County will work to improve the capital asset reporting process.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

10-3 Remittance of Mortgage Registry Tax and Deed Tax

During our review of the 2010 Mortgage Registry Tax and Deed Tax collections and State remittances, we noted that for September, the amount remitted to the State for Mortgage Registry Tax was short \$760 and the amount remitted for Deed Tax was

short \$2,093. Of the normal monthly payments, the State portion of Mortgage Registry Tax was not paid timely 4 of the 12 months and Deed Tax was not paid timely 5 of the 12 months. We also noted that the state's portion of Mortgage Registry Tax receipts collected through June 25 and the estimated amount for the remainder of the month was not remitted until July 20.

This condition resulted in an underpayment of Mortgage Registry Tax and Deed Tax and noncompliance with the payment schedule provided in Minn. Stat. §§ 287.12 and 287.29.

As provided in Minn. Stat. §§ 287.12 and 287.29, the state's portion of the monthly collections of Mortgage Registry Tax and Deed Tax must be remitted to the Commissioner of Revenue on or before the 20th day of the following month, except for the month of June. The state's portion of June collections through June 25 and the estimated state's portion for the remainder of the month must be remitted to the Commissioner of Revenue two business days before June 30. The remaining amount is due on August 20.

The County Auditor/Treasurer believes that the September errors in remittance resulted from a batch of receipts that had not been processed until after generating a report used in determining the amounts to remit for Mortgage Registry Tax and Deed Tax.

We recommend the County Auditor/Treasurer remit the \$760 of Mortgage Registry Tax and \$2,093 of Deed Tax due from the September 2010 collections with the next payment. We further recommend timely posting of receipts to the system so accurate reports can be run and remittances can be made in accordance with Minn. Stat. §§ 287.12 and 287.29.

Client's Response:

Traverse County staff will be sure state payments are made in a more timely manner. In the past, we were paying these types of payments on the date they were due via electronic transfer, but in the future we will be sure to pay a few days in advance.

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 \$204,831 at December 31, 2010. 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 \$6,031 in 2010; net operating income of \$11,881, nonoperating income of \$7,534, and transfer in of \$24,804 were offset by nonoperating expenses of \$50,250 interest expense on the debt.

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:

Prairieview Place is currently being leased to a non-profit. Management is aware of the financial situation.

C. OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board's (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is effective for Traverse County for the year ending December 31, 2011. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and to clarify existing governmental fund type definitions.

Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance are reserved, unreserved-designated, and unreserved-undesignated. Statement 54 replaces these components with nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).
- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.
- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - spendable amounts not contained in the other classifications.

The County should begin the process for implementing the new fund balance classifications. A key step in successfully implementing the new fund balance requirements is to plan ahead. The County can start with the following steps:

- review the requirements of GASB Statement 54;
- review current fund balances and compare to the new classifications;
- reclassify January 1, 2011, fund balance using the new classifications;
- review/update/prepare a comprehensive fund balance policy;
- prepare appropriate Board resolutions to commit fund balance; and
- if the Board of County Commissioners intends to delegate authority to assign fund balance, prepare the resolutions delegating that authority.

Governmental Fund Type Definitions

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in the new standard. The new definition for a special revenue fund could have significant impact on the County's current fund classifications.

GASB Statement 54 provides a new and clearer description of when it is appropriate to account for an activity using a special revenue fund. Special revenue funds are used to report specific revenue sources restricted or committed to specified purposes other than debt service and capital projects, where the restricted or committed revenue sources comprise a substantial portion of the fund's resources, and are expected to continue to do so in the future. The standard does not define substantial portion; however, most recommendations are generally that the restricted and/or committed revenues should comprise at least 35 to 50 percent of total fund revenues. Under this definition, it is possible that some current special revenue funds will no longer meet the requirements for special revenue fund treatment. The County's management should review the County's special revenue funds to ensure these funds continue to warrant treatment as special revenue funds.

The County's management should perform the following steps prior to December 31, 2011:

- prepare a list of the County's special revenue funds;
- determine the sources of revenues for each of those funds;
- identify whether any of those revenues are restricted or committed;
- determine if these restricted or committed revenues represent a substantial portion of the fund's revenues and are expected to continue to be a substantial source of revenues;
 - if yes, the fund may continue to be classified as a special revenue fund;
 - if not, determine whether the County will combine that fund with the general fund or with a similar purpose special revenue fund that meets the new definition;
- code revenues in the general ledger by source constraints--restricted, committed, assigned, or unassigned; and
- determine if there needs to be a restatement of beginning fund balances.

Additional implementation steps could include: informing any component units that they also will need to meet the requirements; deciding on how fund balance will be presented in the financials, such as detailed vs. aggregate methods; and developing the potential note disclosures. Additional guidance on GASB Statement 54 can be found on the Office of the State Auditor's website at:

http://www.auditor.state.mn.us/other/Statements/fundbalances_postGASB54_1012_statement.pdf



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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, 2010, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 30, 2011. Our report includes 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 and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material

weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-3, 06-2, 08-1, 10-1, and 10-2 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Traverse County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in tax increment financing because Traverse County does not have tax increment financing districts.

The results of our tests indicate that, for the items tested, Traverse County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 10-3.

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 30, 2011

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

Board of County Commissioners
Traverse County

Compliance

We have audited Traverse County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2010. 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 of the County's compliance with those requirements.

In our opinion, Traverse County complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2010.

Internal Control Over Compliance

Management of Traverse County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

November 30, 2011