

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

TRAVERSE COUNTY
WHEATON, MINNESOTA

YEAR ENDED DECEMBER 31, 2007

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, 2007



**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, 2007

			<u>Term Expires</u>
Elected			
Commissioners			
Chair	Gerald Kaus	District 1	January 2011
Board Member	William Gibson	District 2	January 2009
Vice Chair	David Naatz	District 3	January 2011
Board Member	Clarence Zimmer	District 4	January 2009
Board Member	Jerry Deal	District 5	January 2011
Attorney	Matthew Franzese		January 2011
Auditor	Kit Johnson		January 2011
County Recorder	LeAnn Peyton		January 2011
Registrar of Titles	LeAnn Peyton		January 2011
County Sheriff	Donald Montonye		January 2011
Appointed			
County Coordinator	Janet Raguse		Indefinite
Assessor	Lois Sumerfelt		January 2009
County Engineer	Larry Haukos		May 2011
Coroner	Dr. Jay Schmidt		January 2008
Examiner of Titles	Lowell Nelson		Indefinite
Nursing Home Administrator	Chere Rikimoto		Indefinite
Social Services Director	Rhonda Antrim		Indefinite
Veterans Service Officer	Gary Tracy		October 2009

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Traverse County

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Traverse County, Minnesota, as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of Traverse County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Traverse Care Center Enterprise Fund, which is both a major fund and 84 percent, 115 percent, and 94 percent, respectively, of the assets, net assets, and revenues of the business-type activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Traverse Care Center, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Traverse County as of and for the year ended December 31, 2007,

and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2009, on our consideration of Traverse County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

March 23, 2009

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007
(Unaudited)**

INTRODUCTION

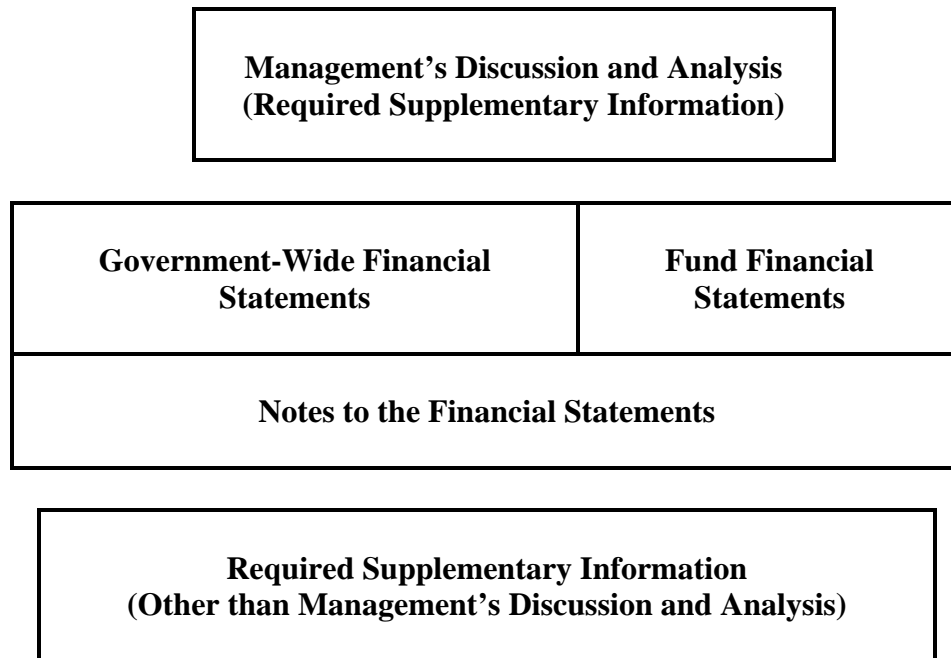
Traverse County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2007. Since this information is designed to focus on the audited year's activities, resulting changes, and currently known facts, it should be read in conjunction with a combination of the financial statements and the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' net assets are \$30,822,771, of which \$25,327,829 is invested in capital assets, net of related debt. Of the governmental activities' net assets, \$2,879,479 is restricted to specific purposes/uses by the County and \$2,615,463 is unrestricted.
- Business-type activities (Traverse Care Center and Prairieview Place) have total net assets of \$763,910, of which there is a negative balance of \$193,478 invested in capital assets, net of related debt. Of the business-type activities' net assets, \$256,985 is restricted for specific purposes/uses by the County and \$700,403 is unrestricted.
- Traverse County's net assets increased by \$1,263,195 for the year ended December 31, 2007. Of the increase, \$1,456,098 was in the governmental activities' net assets, while the business-type activities' net assets decreased by \$192,903.
- The net cost of Traverse County's governmental activities for year ended December 31, 2007, was \$3,147,274. General revenues and other items totaling \$4,603,372 funded the net cost.
- Traverse County's governmental funds' fund balances decreased by \$627,977 in 2007. This decrease was mainly due to a \$1,730,706 decrease in the Jail/LEC Construction Capital Projects Fund, an increase of \$59,185 in the General Fund, an increase of \$539,506 in the Road and Bridge Special Revenue Fund, an increase of \$331,734 in the Social Services Special Revenue Fund, and a net increase of \$172,304 in the other nonmajor governmental funds.

OVERVIEW OF THE FINANCIAL STATEMENTS

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



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

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

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

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

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

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

Fund Financial Statements

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

- **Governmental funds**--Most of the County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements

provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. The relationship (or differences) between the governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds are described in a reconciliation following each governmental fund financial statement.

- Proprietary funds--When the County charges customers for the services it provides--whether to outside customers or to other units of the County--these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the County's enterprise fund presents the same information as the business-type activities in the government-wide statements but provides more detail and additional information, such as cash flows.

Reporting the County's Fiduciary Responsibilities

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

THE COUNTY AS A WHOLE

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

**Table 1
Net Assets**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Assets						
Current and other assets	\$ 6,485,994	\$ 6,397,777	\$ 1,274,172	\$ 1,341,054	\$ 7,760,166	\$ 7,738,831
Capital assets	27,999,608	26,845,472	4,745,044	4,987,104	32,744,652	31,832,576
Total Assets	\$ 34,485,602	\$ 33,243,249	\$ 6,019,216	\$ 6,328,158	\$ 40,504,818	\$ 39,571,407
Liabilities						
Long-term liabilities	\$ 2,752,375	\$ 2,971,259	\$ 4,895,702	\$ 5,208,854	\$ 7,648,077	\$ 8,180,113
Other liabilities	910,456	905,317	359,604	162,491	1,270,060	1,067,808
Total Liabilities	\$ 3,662,831	\$ 3,876,576	\$ 5,255,306	\$ 5,371,345	\$ 8,918,137	\$ 9,247,921
Net Assets						
Invested in capital assets, net of debt	\$ 25,327,829	\$ 24,148,055	\$ (193,478)	\$ (104,806)	\$ 25,134,351	\$ 24,043,249
Restricted	2,879,479	1,336,545	256,985	232,106	3,136,464	1,568,651
Unrestricted	2,615,463	3,882,073	700,403	829,513	3,315,866	4,711,586
Total Net Assets	\$ 30,822,771	\$ 29,366,673	\$ 763,910	\$ 956,813	\$ 31,586,681	\$ 30,323,486

(Unaudited)

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Traverse County's total net assets as of December 31, 2007, total \$31,586,681. The governmental activities' unrestricted net assets totaling \$2,615,463 are available to finance the day-to-day operations of the governmental activities of the County. The remaining unrestricted net assets totaling \$700,403 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	
	2007	2006	2007	2006	2007	2006
Revenues						
Program revenues						
Fees, fines, and charges	\$ 733,121	\$ 831,610	\$ 3,268,476	\$ 3,160,098	\$ 4,001,597	\$ 3,991,708
Operating grants and contributions	3,927,870	3,356,971	754	12,560	3,928,624	3,369,531
Capital grants and contributions	103,040	183,018	16,459	-	119,499	183,018
General revenues						
Property taxes	3,925,088	3,237,523	-	-	3,925,088	3,237,523
Other taxes	19,738	12,566	-	-	19,738	12,566
Grants, gifts, and miscellaneous	668,546	663,951	13,126	9,662	681,672	673,613
Total Revenues	\$ 9,377,403	\$ 8,285,639	\$ 3,298,815	\$ 3,182,320	\$ 12,676,218	\$ 11,467,959
Expenses						
General government	\$ 1,456,713	\$ 1,398,162	\$ -	\$ -	\$ 1,456,713	\$ 1,398,162
Public safety	1,190,652	955,957	-	-	1,190,652	955,957
Highways and streets	3,433,506	2,520,316	-	-	3,433,506	2,520,316
Sanitation	96,363	5,785	-	-	96,363	5,785
Human services	1,171,138	1,254,213	-	-	1,171,138	1,254,213
Health	78,005	78,279	-	-	78,005	78,279
Culture and recreation	54,951	46,348	-	-	54,951	46,348
Conservation of natural resources	320,195	292,877	-	-	320,195	292,877
Economic development	2,325	2,142	-	-	2,325	2,142
Interest	107,457	13,828	-	-	107,457	13,828
Prairieview Place	-	-	241,054	239,756	241,054	239,756
Traverse Care Center	-	-	3,260,664	3,136,161	3,260,664	3,136,161
Total Expenses	\$ 7,911,305	\$ 6,567,907	\$ 3,501,718	\$ 3,375,917	\$ 11,413,023	\$ 9,943,824
Increase (Decrease) Before Transfers	\$ 1,466,098	\$ 1,717,732	\$ (202,903)	\$ (193,597)	\$ 1,263,195	\$ 1,524,135
Transfers	(10,000)	(21,549)	10,000	21,549	-	-
Increase (Decrease) in Net Assets	\$ 1,456,098	\$ 1,696,183	\$ (192,903)	\$ (172,048)	\$ 1,263,195	\$ 1,524,135
Net Assets - January 1	29,366,673	27,670,490	956,813	1,128,861	30,323,486	28,799,351
Net Assets - December 31	\$ 30,822,771	\$ 29,366,673	\$ 763,910	\$ 956,813	\$ 31,586,681	\$ 30,323,486

The County's activities increased net assets by 4.17 percent (\$31,586,681 for 2007 compared to \$30,323,486 for 2006).

Governmental Activities

The cost of all governmental activities in 2007 was \$7,911,305. 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 \$3,147,274, because some of the cost was paid by those who directly benefited from the programs (\$733,121) or by other governments and organizations that subsidized certain programs with grants and contributions of \$4,030,910.

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	
	2007	2006	2007	2006
Highways and streets	\$ 3,433,506	\$ 2,520,316	\$ 468,954	\$ (145,556)
General government	1,456,713	1,398,162	1,286,931	1,028,820
Public safety	1,190,652	955,957	533,619	569,647
Human services	1,171,138	1,254,213	378,358	470,884
Conservation of natural resources	320,195	292,877	308,601	225,065
All others	339,101	146,382	170,811	47,448
Total	\$ 7,911,305	\$ 6,567,907	\$ 3,147,274	\$ 2,196,308

Business-Type Activities

Revenues for Traverse County's business-type activities (see Table 2) were \$3,298,815, transfers in were \$10,000, and expenses were \$3,501,718.

The County's Funds

Upon completing the year, Traverse County's governmental fund balance decreased by \$627,977. This decrease was mainly due to a \$1,730,706 decrease in the Jail/LEC Construction Fund, an increase of \$59,185 in the General Fund, an increase of \$539,506 in the Road and Bridge Special Revenue Fund, and an increase of \$331,734 in the Social Services Special Revenue Fund.

General Fund Budgetary Highlights

The Traverse County Board of Commissioners, over the course of the year, may amend/revise the County's budget. These budget amendments usually will fall into one of two categories: new information changing original budget estimations and greater than anticipated revenues or costs. No material revisions were made in 2007.

Actual revenue exceeded budgeted revenue by \$252,389 primarily due to intergovernmental revenues \$234,470 over projections and interest earnings \$105,226 over projections, offset by tax collections \$160,409 under the projected total. Expenditures were \$183,204 over projected amounts primarily due to jail operating costs \$134,200 over projections.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2007, Traverse County had \$32,744,652 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 \$912,076, or 2.87 percent, over last year.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Land	\$ 176,352	\$ 176,352	\$ 16,175	\$ 16,175	\$ 192,527	\$ 192,527
Right-of-way	401,473	395,304	-	-	401,473	395,304
Construction in progress	10,000	662,891	-	-	10,000	662,891
Buildings	3,811,610	1,532,307	4,613,279	4,846,168	8,424,889	6,378,475
Land improvements	43,551	47,069	7,211	8,545	50,762	55,614
Machinery, furniture, and equipment	1,275,912	1,579,651	108,379	116,216	1,384,291	1,695,867
Infrastructure	22,280,710	22,451,898	-	-	22,280,710	22,451,898
Totals	<u>\$ 27,999,608</u>	<u>\$ 26,845,472</u>	<u>\$ 4,745,044</u>	<u>\$ 4,987,104</u>	<u>\$ 32,744,652</u>	<u>\$ 31,832,576</u>

Debt

As of December 31, 2007, Traverse County had \$7,470,185 in long-term obligations, compared with \$7,624,630 as of December 31, 2006--a decrease of 2.03 percent--as shown in Table 5.

Table 5
Outstanding Debt at Year-End

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
General obligation bonds	\$ 2,515,000	\$ 2,515,000	\$ 1,075,000	\$ 1,110,000	\$ 3,590,000	\$ 3,625,000
Revenue bonds	-	-	3,595,000	3,670,000	3,595,000	3,670,000
Loans	-	-	285,185	329,630	285,185	329,630
Totals	<u>\$ 2,515,000</u>	<u>\$ 2,515,000</u>	<u>\$ 4,955,185</u>	<u>\$ 5,109,630</u>	<u>\$ 7,470,185</u>	<u>\$ 7,624,630</u>

No new debt was issued in 2007.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Traverse County's elected and appointed officials considered many factors when setting the fiscal year 2007 budget, tax levy, and fees that will be charged for the business-type activities. These factors include: decreasing state aid, increasing input costs, low fund balances, an increasing burden on Traverse County taxpayers, and a need to provide a certain level of services to Traverse County residents/taxpayers.

Traverse County's Board of Commissioners settled on a final levy of \$4,226,473, a 24.27 percent increase over the 2006 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, 2007**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 3,296,290	\$ 320,736	\$ 3,617,026
Investments	95,448	35,390	130,838
Taxes receivable			
Current - net	68,609	-	68,609
Prior - net	43,235	-	43,235
Special assessments receivable			
Current - net	3,419	-	3,419
Prior - net	6,305	-	6,305
Accounts receivable - net	22,075	424,522	446,597
Accrued interest receivable	8,424	-	8,424
Internal balances	25	(25)	-
Due from other governments	2,842,743	-	2,842,743
Prepaid items	-	10,550	10,550
Inventories	42,465	19,395	61,860
Restricted assets			
Cash and pooled investments - temporarily restricted	-	247,118	247,118
Investments	-	43,573	43,573
Residents' trust fund	-	11,341	11,341
Noncurrent assets			
Deferred charges	56,956	108,162	165,118
Investment in joint venture	-	53,410	53,410
Capital assets			
Non-depreciable	587,825	16,175	604,000
Depreciable - net of accumulated depreciation	27,411,783	4,728,869	32,140,652
Total Assets	\$ 34,485,602	\$ 6,019,216	\$ 40,504,818

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT 1
(Continued)**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2007**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 174,148	\$ 70,717	\$ 244,865
Salaries payable	24,480	19,856	44,336
Accrued payroll taxes	-	2,760	2,760
Contracts payable	210,764	-	210,764
Due to other governments	214,027	648	214,675
Third-party payor settlements payable	-	13,000	13,000
Accrued interest payable	43,488	-	43,488
Unearned revenue	52,753	-	52,753
Compensated absences/vacation/sick payable - current	118,322	-	118,322
General obligation bonds payable - current	50,000	35,000	85,000
Revenue bonds payable - current	-	80,000	80,000
Leases payable - current	22,474	-	22,474
Loans payable - current	-	44,444	44,444
Payable from restricted assets			
Interest payable	-	75,246	75,246
Residents' trust fund	-	11,341	11,341
Rent deposits	-	6,592	6,592
Noncurrent liabilities			
Compensated absences payable	106,684	95,062	201,746
General obligation bonds payable	2,511,386	1,034,804	3,546,190
Revenue bonds payable	-	3,525,095	3,525,095
Leases payable	134,305	-	134,305
Loans payable	-	240,741	240,741
Total Liabilities	\$ 3,662,831	\$ 5,255,306	\$ 8,918,137
<u>Net Assets</u>			
Invested in capital assets - net of related debt	\$ 25,327,829	\$ (193,478)	\$ 25,134,351
Restricted for			
General government	75,151	-	75,151
Public safety	134,015	-	134,015
Highways and streets	2,201,853	-	2,201,853
Sanitation	339,680	-	339,680
Capital projects	31,534	-	31,534
Debt service	97,246	240,526	337,772
Capital acquisitions	-	16,459	16,459
Unrestricted	2,615,463	700,403	3,315,866
Total Net Assets	\$ 30,822,771	\$ 763,910	\$ 31,586,681

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

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary government		
Governmental activities		
General government	\$ 1,456,713	\$ 132,233
Public safety	1,190,652	278,656
Highways and streets	3,433,506	207,531
Sanitation	96,363	-
Human services	1,171,138	100,764
Health	78,005	-
Culture and recreation	54,951	8,205
Conservation of natural resources	320,195	5,732
Economic development	2,325	-
Interest	107,457	-
	\$ 7,911,305	\$ 733,121
Total governmental activities		
Business-type activities		
Traverse Care Center	\$ 3,260,664	\$ 3,065,594
Prairieview Place	241,054	202,882
	\$ 3,501,718	\$ 3,268,476
Total business-type activities		
	\$ 11,413,023	\$ 4,001,597
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

Transfers

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
\$ 37,549	\$ -	\$ (1,286,931)	\$ -	\$ (1,286,931)
378,377	-	(533,619)	-	(533,619)
2,653,981	103,040	(468,954)	-	(468,954)
108,055	-	11,692	-	11,692
692,016	-	(378,358)	-	(378,358)
-	-	(78,005)	-	(78,005)
52,030	-	5,284	-	5,284
5,862	-	(308,601)	-	(308,601)
-	-	(2,325)	-	(2,325)
-	-	(107,457)	-	(107,457)
\$ 3,927,870	\$ 103,040	\$ (3,147,274)	\$ -	\$ (3,147,274)
\$ 754	\$ 16,459	\$ -	\$ (177,857)	\$ (177,857)
-	-	-	(38,172)	(38,172)
\$ 754	\$ 16,459	\$ -	\$ (216,029)	\$ (216,029)
\$ 3,928,624	\$ 119,499	\$ (3,147,274)	\$ (216,029)	\$ (3,363,303)
		\$ 3,925,088	\$ -	\$ 3,925,088
		3,578	-	3,578
		380,180	-	380,180
		16,160	-	16,160
		161,736	13,126	174,862
		126,630	-	126,630
		(10,000)	10,000	-
		\$ 4,603,372	\$ 23,126	\$ 4,626,498
		\$ 1,456,098	\$ (192,903)	\$ 1,263,195
		29,366,673	956,813	30,323,486
		\$ 30,822,771	\$ 763,910	\$ 31,586,681

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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, 2007**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Jail/LEC Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>						
Cash and pooled investments	\$ 1,183,741	\$ 519,007	\$ 856,386	\$ 130,486	\$ 501,946	\$ 3,191,566
Petty cash and change funds	1,400	-	100	-	-	1,500
Undistributed cash in agency funds	56,954	25,691	16,188	-	4,391	103,224
Investments	95,448	-	-	-	-	95,448
Taxes receivable						
Current	35,108	18,593	11,705	-	3,203	68,609
Prior	24,836	9,891	7,770	-	738	43,235
Special assessments receivable						
Current	3,419	-	-	-	-	3,419
Prior	6,305	-	-	-	-	6,305
Accounts receivable	1,400	20,591	84	-	-	22,075
Accrued interest receivable	8,424	-	-	-	-	8,424
Due from other funds	18,449	1,612	2,293	-	7,948	30,302
Due from other governments	114,182	2,636,499	92,062	-	-	2,842,743
Inventories	-	42,465	-	-	-	42,465
Total Assets	<u>\$ 1,549,666</u>	<u>\$ 3,274,349</u>	<u>\$ 986,588</u>	<u>\$ 130,486</u>	<u>\$ 518,226</u>	<u>\$ 6,459,315</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Jail/LEC Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Liabilities and Fund Balances</u>						
Liabilities						
Accounts payable	\$ 80,002	\$ 48,489	\$ 29,806	\$ 15,851	\$ -	\$ 174,148
Salaries payable	659	23,821	-	-	-	24,480
Contracts payable	-	210,764	-	-	-	210,764
Due to other funds	3,905	1,464	16,960	7,948	-	30,277
Due to other governments	47,277	151,518	15,232	-	-	214,027
Deferred revenue						
Unavailable	82,141	2,287,646	40,623	-	3,941	2,414,351
Unearned	52,753	-	-	-	-	52,753
Total Liabilities	\$ 266,737	\$ 2,723,702	\$ 102,621	\$ 23,799	\$ 3,941	\$ 3,120,800
Fund Balances						
Reserved for						
Boat and water safety	\$ 13,564	\$ -	\$ -	\$ -	\$ -	\$ 13,564
Encumbrances	-	123,740	-	-	-	123,740
Future plant expansion	339,680	-	-	-	-	339,680
Inventories	-	42,464	-	-	-	42,464
Missing heirs	30,141	-	-	-	-	30,141
State-aid highway projects	-	984	-	-	-	984
Enhanced 911	120,451	-	-	-	-	120,451
HAVA	8,971	-	-	-	-	8,971
Recorder's equipment	29,033	-	-	-	-	29,033
Recorder's compliance fund	37,147	-	-	-	-	37,147
Unreserved						
Undesignated	703,942	383,459	883,967	106,687	-	2,078,055
Reported in nonmajor						
Special revenue fund	-	-	-	-	362,226	362,226
Debt service funds	-	-	-	-	120,525	120,525
Capital projects fund	-	-	-	-	31,534	31,534
Total Fund Balances	\$ 1,282,929	\$ 550,647	\$ 883,967	\$ 106,687	\$ 514,285	\$ 3,338,515
Total Liabilities and Fund Balances	\$ 1,549,666	\$ 3,274,349	\$ 986,588	\$ 130,486	\$ 518,226	\$ 6,459,315

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2007**

Fund balance - total governmental funds (Exhibit 3)	\$	3,338,515
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.		27,999,608
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		2,414,351
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (2,515,000)	
Less: deferred issuance costs	56,956	
Add: unamortized premiums	(46,386)	
Capital leases	(156,779)	
Compensated absences	(225,006)	
Accrued interest payable	(43,488)	(2,929,703)
	<hr/>	<hr/>
Net Assets of Governmental Activities (Exhibit 1)	\$	<u>30,822,771</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Jail/LEC Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues						
Taxes	\$ 2,013,437	\$ 1,050,001	\$ 658,489	\$ -	\$ 179,465	\$ 3,901,392
Special assessments	56,016	-	-	-	-	56,016
Licenses and permits	12,087	-	-	-	-	12,087
Intergovernmental	507,052	2,230,559	738,430	-	1,286	3,477,327
Charges for services	160,707	161,858	7,020	-	-	329,585
Fines and forfeits	725	-	-	-	-	725
Investment earnings	155,226	-	-	-	-	155,226
Miscellaneous	316,345	23,873	104,224	-	61,592	506,034
Total Revenues	\$ 3,221,595	\$ 3,466,291	\$ 1,508,163	\$ -	\$ 242,343	\$ 8,438,392
Expenditures						
Current						
General government	\$ 1,422,841	\$ -	\$ -	\$ -	\$ 1,806	\$ 1,424,647
Public safety	1,152,308	-	-	30,881	-	1,183,189
Highways and streets	-	2,772,415	-	-	-	2,772,415
Sanitation	92,937	-	-	-	-	92,937
Human services	-	-	1,176,429	-	-	1,176,429
Health	78,005	-	-	-	-	78,005
Culture and recreation	54,003	-	-	-	-	54,003
Conservation of natural resources	319,279	-	-	-	-	319,279
Economic development	2,325	-	-	-	-	2,325
Intergovernmental	-	161,239	-	-	-	161,239
Capital outlay	-	-	-	1,699,825	-	1,699,825
Debt service						
Principal	25,638	-	-	-	-	25,638
Interest	5,074	-	-	-	68,233	73,307
Total Expenditures	\$ 3,152,410	\$ 2,933,654	\$ 1,176,429	\$ 1,730,706	\$ 70,039	\$ 9,063,238

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT 5
(Continued)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Jail/LEC Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Excess of Revenues Over (Under) Expenditures	\$ 69,185	\$ 532,637	\$ 331,734	\$ (1,730,706)	\$ 172,304	\$ (624,846)
Other Financing Sources (Uses)						
Transfers out	(10,000)	-	-	-	-	(10,000)
Net Change in Fund Balance	\$ 59,185	\$ 532,637	\$ 331,734	\$ (1,730,706)	\$ 172,304	\$ (634,846)
Fund Balance - January 1	1,223,744	11,141	552,233	1,837,393	341,981	3,966,492
Increase (decrease) in reserved for inventories	-	6,869	-	-	-	6,869
Fund Balance - December 31	<u>\$ 1,282,929</u>	<u>\$ 550,647</u>	<u>\$ 883,967</u>	<u>\$ 106,687</u>	<u>\$ 514,285</u>	<u>\$ 3,338,515</u>

**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, 2007**

Net change in fund balances - total governmental funds (Exhibit 5) \$ (634,846)

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	\$ 2,414,351	
Deferred revenue - January 1	<u>(1,475,340)</u>	939,011

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 sale 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	\$ 2,226,109	
Current year depreciation	<u>(1,071,973)</u>	1,154,136

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

Principal repayments		
Capital lease		25,638

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	\$ (34,150)	
Change in deferred charges	(3,010)	
Amortization of bond premiums	2,452	
Change in compensated absences	(2)	
Change in inventories	<u>6,869</u>	<u>(27,841)</u>

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 1,456,098

PROPRIETARY FUNDS

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2007**

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 65,439	\$ 255,247	\$ 320,686
Petty cash and change funds	50	-	50
Investments	-	35,390	35,390
Accounts receivable - net	-	424,522	424,522
Inventories	1,601	17,794	19,395
Prepaid items	-	10,550	10,550
Total current assets	\$ 67,090	\$ 743,503	\$ 810,593
Restricted assets			
Cash and pooled investments	\$ 6,592	\$ 240,526	\$ 247,118
Investments	-	43,573	43,573
Residents' trust fund	-	11,341	11,341
Total restricted assets	\$ 6,592	\$ 295,440	\$ 302,032
Noncurrent assets			
Advance to other funds	\$ -	\$ 56,961	\$ 56,961
Deferred debt issuance costs	21,562	86,600	108,162
Investment in joint venture	-	53,410	53,410
Capital assets			
Nondepreciable	-	16,175	16,175
Depreciable - net	930,316	3,798,553	4,728,869
Total noncurrent assets	\$ 951,878	\$ 4,011,699	\$ 4,963,577
Total Assets	\$ 1,025,560	\$ 5,050,642	\$ 6,076,202

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT 7
(Continued)**

**STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2007**

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
Liabilities			
Current liabilities			
Accounts payable	\$ 8,005	\$ 62,712	\$ 70,717
Salaries payable	-	19,856	19,856
Accrued payroll taxes	-	2,760	2,760
Compensated absences payable - current	231	94,831	95,062
Due to other funds	25	-	25
Due to other governments	648	-	648
Third-party payor settlements payable	-	13,000	13,000
General obligation bonds payable - current	35,000	-	35,000
Revenue bonds payable - current	-	80,000	80,000
Total current liabilities	\$ 43,909	\$ 273,159	\$ 317,068
Current liabilities payable from restricted assets			
Interest payable	\$ -	\$ 75,246	\$ 75,246
Residents' trust fund	-	11,341	11,341
Rent deposits	6,592	-	6,592
Loans payable - current	-	44,444	44,444
Total current liabilities payable from restricted assets	\$ 6,592	\$ 131,031	\$ 137,623
Noncurrent liabilities			
Advance from other funds	\$ 56,961	\$ -	\$ 56,961
Loans payable - long term	-	240,741	240,741
General obligation bonds payable - long-term	1,034,804	-	1,034,804
Revenue bonds payable - long-term	-	3,525,095	3,525,095
Total noncurrent liabilities	\$ 1,091,765	\$ 3,765,836	\$ 4,857,601
Total Liabilities	\$ 1,142,266	\$ 4,170,026	\$ 5,312,292
Net Assets			
Invested in capital assets - net of related debt	\$ (117,926)	\$ (75,552)	\$ (193,478)
Restricted for debt service	-	240,526	240,526
Restricted for capital acquisitions	-	16,459	16,459
Unrestricted	1,220	699,183	700,403
Total Net Assets	\$ (116,706)	\$ 880,616	\$ 763,910

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
Operating Revenues			
Charges for services	\$ 174,357	\$ -	\$ 174,357
Patient services revenues	-	3,002,695	3,002,695
Meals	26,986	-	26,986
Laundry	1,494	-	1,494
Miscellaneous	45	62,899	62,944
Total Operating Revenues	\$ 202,882	\$ 3,065,594	\$ 3,268,476
Operating Expenses			
Personal services	\$ 23,553	\$ 554,770	\$ 578,323
Employee benefits and payroll taxes	5,519	-	5,519
Nursing services	-	970,219	970,219
Contracted services	36,116	-	36,116
Administration and fiscal services	-	293,107	293,107
Other care-related	-	85,095	85,095
Supplies	1,628	-	1,628
Ancillary services	-	155,800	155,800
Travel	311	-	311
Telephone	560	-	560
Utilities	42,721	-	42,721
Plant operations	-	223,934	223,934
Advertising	1,912	-	1,912
Repairs and maintenance	6,681	-	6,681
Insurance	14,823	-	14,823
Licenses and dues	977	-	977
Postage	226	-	226
Property and household	-	142,765	142,765
Laundry	-	58,822	58,822
Dietary	-	266,598	266,598
Housekeeping	-	74,106	74,106
Miscellaneous	3,707	-	3,707
Depreciation	46,832	213,981	260,813
Total Operating Expenses	\$ 185,566	\$ 3,039,197	\$ 3,224,763
Operating Income (Loss)	\$ 17,316	\$ 26,397	\$ 43,713

**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, 2007**

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
Nonoperating Revenues (Expenses)			
Interest income	\$ 2,375	\$ 10,751	\$ 13,126
Gifts and contributions	-	754	754
Interest expense	(55,488)	(179,877)	(235,365)
Loss on investment in joint venture	-	(41,590)	(41,590)
Total Nonoperating Revenues (Expenses)	\$ (53,113)	\$ (209,962)	\$ (263,075)
Income (Loss) Before Contributions and Transfers	\$ (35,797)	\$ (183,565)	\$ (219,362)
Capital contributions	-	16,459	16,459
Transfers in	10,000	-	10,000
Change in net assets	\$ (25,797)	\$ (167,106)	\$ (192,903)
Net Assets - January 1	(90,909)	1,047,722	956,813
Net Assets - December 31	\$ (116,706)	\$ 880,616	\$ 763,910

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007
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	\$ 202,882	\$ 2,885,918	\$ 3,088,800
Payments to suppliers and employees	-	(2,800,351)	(2,800,351)
Payments to suppliers	(106,126)	-	(106,126)
Payments to employees	(29,087)	-	(29,087)
Reduction in rent deposits	(1,190)	-	(1,190)
Other receipts and payments - net	-	62,539	62,539
Net cash provided by (used in) operating activities	\$ 66,479	\$ 148,106	\$ 214,585
Cash Flows from Noncapital Financing Activities			
Contributions	-	754	754
Transfers in	10,000	-	10,000
Net cash provided by (used in) noncapital financing activities	\$ 10,000	\$ 754	\$ 10,754
Cash Flows from Capital and Related Financing Activities			
Principal paid on long-term debt	\$ (34,717)	\$ (119,445)	\$ (154,162)
Interest paid on long-term debt	(55,488)	(179,877)	(235,365)
Capital grants and contributions	-	16,459	16,459
Investment in joint venture	-	(95,000)	(95,000)
Purchases of capital assets	-	(15,789)	(15,789)
Net cash provided by (used in) capital and related financing activities	\$ (90,205)	\$ (393,652)	\$ (483,857)
Cash Flows from Investing Activities			
Increase in investments	\$ -	\$ (207)	\$ (207)
Increase in noncurrent investments	-	(21,610)	(21,610)
Investment earnings received	2,375	10,751	13,126
Net cash provided by (used in) investing activities	\$ 2,375	\$ (11,066)	\$ (8,691)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (11,351)	\$ (255,858)	\$ (267,209)
Cash and Cash Equivalents at January 1	83,432	511,105	594,537
Cash and Cash Equivalents at December 31	\$ 72,081	\$ 255,247	\$ 327,328

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007
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	\$ 65,439	\$ 255,247	\$ 320,686
Petty cash and change funds	50	-	50
Restricted cash and pooled investments	6,592	-	6,592
Total Cash and Cash Equivalents	<u>\$ 72,081</u>	<u>\$ 255,247</u>	<u>\$ 327,328</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities			
Operating income (loss)	<u>\$ 17,316</u>	<u>\$ 26,397</u>	<u>\$ 43,713</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	\$ 46,832	\$ 213,981	\$ 260,813
(Increase) decrease in accounts receivable	-	(119,654)	(119,654)
(Increase) decrease in inventories	385	(292)	93
(Increase) decrease in deferred debt issuance costs	1,176	-	1,176
(Increase) decrease in prepaid items	-	1,058	1,058
Increase (decrease) in accounts payable	2,059	20,956	23,015
Increase (decrease) in compensated absences payable	(15)	-	(15)
Increase (decrease) in due to other funds	(17)	-	(17)
Increase (decrease) in due to other governments	(67)	-	(67)
Increase (decrease) in accrued expenses	-	2,783	2,783
Increase (decrease) in third-party payor settlements payable	-	2,877	2,877
Increase (decrease) in rent deposits payable	(1,190)	-	(1,190)
Total adjustments	<u>\$ 49,163</u>	<u>\$ 121,709</u>	<u>\$ 170,872</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 66,479</u>	<u>\$ 148,106</u>	<u>\$ 214,585</u>

FIDUCIARY FUNDS

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TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2007

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	\$ 118,357
Due from other governments	<u>1,701</u>
Total Assets	<u>\$ 120,058</u>
<u>Liabilities</u>	
Due to other governments	<u>\$ 120,058</u>

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2007

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, 2007. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the County has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the County has chosen not to do so. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the County. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

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

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

2. Fund Financial Statements

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

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

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

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

The Jail/LEC Construction Capital Projects Fund is used to account for financial resources to be used for the construction of the Law Enforcement Center (LEC).

The County reports the following major enterprise funds:

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

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

Additionally, the County reports the following fund type:

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

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

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

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2007, 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 2007 were \$166,404.

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

3. Receivables and Payables

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

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

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

All receivables are shown net of an allowance for uncollectibles. At December 31, 2007, the Traverse Care Center had an allowance for doubtful accounts of \$28,000.

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due May 15 and the second half payment due October 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

4. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories in proprietary funds and at the government-wide level are recorded as expenses when consumed.

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Restricted Assets

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

6. Capital Assets

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

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

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

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Compensated Absences

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

8. Deferred Revenue

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

9. Long-Term Obligations

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

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Fund Equity

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

11. Use of Estimates

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

12. Third-Party Reimbursement Agreements

Medicaid

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

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

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

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

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

Occupancy Percentages

During the year ended December 31, 2007, the occupancy percentage and the percentages of residents covered by the Medicaid and Medicare programs were as follows:

Total occupancy	99.1%
Medicaid	63.4
Medicare	2.4

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

The following major fund had deficit net assets as of December 31, 2007:

Prairieview Place Enterprise Fund	<u>\$ 116,706</u>
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The deficit net assets in the Prairieview Place Enterprise Fund are expected to be eliminated by future earnings.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

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, which had expenditures in excess of budget for the year ended December 31, 2007:

	Expenditures	Budget	Excess
General Fund	\$ 3,152,410	\$ 2,969,206	\$ 183,204
Building Special Revenue Fund	1,806	-	1,806

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Primary government	
Cash and pooled investments	\$ 3,617,026
Investments	130,838
Restricted assets	
Cash and pooled investments	247,118
Investments	43,573
Residents' trust fund	11,341
Fiduciary funds	
Cash and pooled investments	
Agency funds	118,357
Total Cash and Investments	\$ 4,168,253

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2007, the County's deposits were under collateralized by \$371,982.

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (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, 2007, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
U.S. government agency securities					
Federal Home Loan Mortgage Corporation	AAA	Moody's	22%	03/28/2019	\$ 99,998
Federal Home Loan Mortgage Corporation	AAA	Moody's	19%	06/15/2018	86,995
Total Federal Home Loan Mortgage Corporation					\$ 186,993

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk Over 5 Percent of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
	Credit Rating	Rating Agency			
U.S. Treasury Strip	N/A	N/A		11/15/2008	\$ 220,782
Investment pools/mutual funds					
Federated U.S. Government Fund	AAA	S&P			\$ 33,519
MAGIC Fund	N/A				6,384
Total investment pools/mutual funds			N/A		\$ 39,903
Total investments					\$ 447,678
Deposits					3,718,875
Change funds					1,700
Total Cash and Investments					\$ 4,168,253

N/A - Not Applicable

2. Receivables

Receivables as of December 31, 2007, 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	\$ 111,844
Special assessments	9,724
Accounts	22,075
Interest	8,424
Due from other governments	2,842,743
Total Governmental Activities	\$ 2,994,810
Business-Type Activities	
Accounts receivable	\$ 424,522

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, 2007, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 176,352	\$ -	\$ -	\$ 176,352
Right-of-way	395,304	6,169	-	401,473
Construction in progress	662,891	10,000	662,891	10,000
Total capital assets not depreciated	\$ 1,234,547	\$ 16,169	\$ 662,891	\$ 587,825
Capital assets depreciated				
Buildings	\$ 2,853,649	\$ 2,363,584	\$ -	\$ 5,217,233
Land improvements	61,502	-	-	61,502
Machinery, furniture, and equipment	4,259,034	89,053	71,809	4,276,278
Infrastructure	29,148,805	420,194	-	29,568,999
Total capital assets depreciated	\$ 36,322,990	\$ 2,872,831	\$ 71,809	\$ 39,124,012
Less: accumulated depreciation for				
Buildings	\$ 1,321,342	\$ 84,281	\$ -	\$ 1,405,623
Land improvements	14,433	3,518	-	17,951
Machinery, furniture, and equipment	2,679,383	392,792	71,809	3,000,366
Infrastructure	6,696,907	591,382	-	7,288,289
Total accumulated depreciation	\$ 10,712,065	\$ 1,071,973	\$ 71,809	\$ 11,712,229
Total capital assets depreciated, net	\$ 25,610,925	\$ 1,800,858	\$ -	\$ 27,411,783
Governmental Activities Capital Assets, Net	\$ 26,845,472	\$ 1,817,027	\$ 662,891	\$ 27,999,608

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 16,175	\$ -	\$ -	\$ 16,175
Capital assets depreciated				
Buildings	\$ 6,398,048	\$ -	\$ -	\$ 6,398,048
Land improvements	43,938	-	-	43,938
Machinery, furniture, and equipment	460,129	15,789	-	475,918
Total capital assets depreciated	\$ 6,902,115	\$ 15,789	\$ -	\$ 6,917,904
Less: accumulated depreciation for				
Buildings	\$ 1,551,880	\$ 232,889	\$ -	\$ 1,784,769
Land improvements	35,393	1,334	-	36,727
Machinery, furniture, and equipment	343,913	23,626	-	367,539
Total accumulated depreciation	\$ 1,931,186	\$ 257,849	\$ -	\$ 2,189,035
Total capital assets depreciated, net	\$ 4,970,929	\$ (242,060)	\$ -	\$ 4,728,869
Business-Type Activities				
Capital Assets, Net	\$ 4,987,104	\$ (242,060)	\$ -	\$ 4,745,044

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

Governmental Activities	
General government	\$ 81,033
Public safety	36,835
Highways and streets, including depreciation of infrastructure assets	940,640
Social services	7,134
Sanitation	3,426
Culture and recreation	948
Conservation of natural resources	1,957
Total Depreciation Expense - Governmental Activities	<u>\$ 1,071,973</u>
Business-Type Activities	
Traverse Care Center	\$ 211,017
Prairieview Place	46,832
Total Depreciation Expense - Business-Type Activities	<u>\$ 257,849</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

4. Investment in Joint Venture

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

Initial contribution	\$	95,000
Traverse Care Center's share of loss		<u>(41,590)</u>
Ending Equity in Joint Venture	\$	<u>53,410</u>

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, 2007, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Road and Bridge Special Revenue Fund	\$ 1,464
	Social Services Special Revenue Fund	16,960
	Prairieview Place Enterprise Fund	<u>25</u>
Total Due to General Fund		\$ 18,449
Road and Bridge Special Revenue Fund	General Fund	1,612
Social Services Special Revenue Fund	General Fund	2,293
Building Special Revenue Fund	Jail/LEC Construction Capital Projects Fund	<u>7,948</u>
Total Due To/From Other Funds		<u>\$ 30,302</u>

**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

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

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

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2007, consisted of the following:

Transfers to Prairieview Place Enterprise Fund from General Fund	<u>\$ 10,000</u>	Transfer investment income and provide operating funding
--	------------------	--

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2007, were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts	\$ 174,148	\$ 70,717
Salaries	24,480	19,856
Accrued payroll taxes	-	2,760
Contracts	210,764	-
Due to other governments	214,027	648
Interest	43,488	75,246
Residents' trust fund	-	11,341
Rent deposits	-	6,592
	<u>666,907</u>	<u>187,160</u>
Total Payables	<u>\$ 666,907</u>	<u>\$ 187,160</u>

2. Deferred Revenue

Deferred revenue as of December 31, 2007, for the County is as follows:

	<u>Deferred Unavailable</u>	<u>Deferred Unearned</u>
Taxes and special assessments	\$ 121,568	\$ -
State-aid highway allotments	2,200,869	-
Charges for services	54,288	-
Grants	31,116	52,753
Interest	6,510	-
	<u>2,414,351</u>	<u>52,753</u>
Total Deferred	<u>\$ 2,414,351</u>	<u>\$ 52,753</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, 2007. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Roads and bridges	\$ 800,505	\$ 156,054

4. Other Postemployment Benefits - Retirees

The County pays the health insurance for qualified retired employees (employees who retired at age 60 with over 15 years of service, or at age 55 with over 22 years of service) from their date of retirement until death. The rates are based on the County's group health policy rates. The County's contributions for the year ended December 31, 2007, were:

	Number of Participants	Contribution
General Fund	14	\$ 85,514
Road and Bridge Special Revenue Fund	12	104,510
Social Services Special Revenue Fund	2	9,096
Traverse Care Center Enterprise Fund	10	50,785
Total		\$ 249,905

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Leases

Capital Leases

The County has entered into 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, 2007:

<u>Leases</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
Governmental Activities					
Digital video system	2009	Monthly	\$ 447	\$ 12,882	\$ 8,203
Social Services building	2014	Semi-Annual	12,900	300,000	<u>148,576</u>
Total Governmental Activities Capital Leases					<u>\$ 156,779</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2007, were as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2008	\$ 31,158
2009	29,818
2010	25,799
2011	25,799
2012	25,799
2013 - 2014	<u>50,859</u>
Total minimum lease payments	\$ 189,232
Less: amount representing interest	<u>(32,453)</u>
Present Value of Minimum Lease Payments	<u>\$ 156,779</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Long-Term Debt

Governmental Activities

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2007</u>
General obligation bonds					
2006 G.O. Jail Bonds	2027	\$50,000 - \$185,000	4.00 - 4.25	<u>\$ 2,515,000</u>	\$ 2,515,000
Add: unamortized premium					<u>46,386</u>
Total General Obligation Bonds					<u>\$ 2,561,386</u>

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, 2007</u>
USDA Loan	2014	\$44,444	-	\$ 400,000	<u>\$ 285,185</u>
2005 G.O. Governmental Housing Refunding Bonds	2026	\$30,000 - \$85,000	5.00	\$ 1,190,000	\$ 1,075,000
Less: unamortized discount					<u>(5,196)</u>
Total G.O. Bonds Net					<u>\$ 1,069,804</u>
2003 G.O. Nursing Home Revenue Bonds	2033	\$75,000 - \$235,000	3.25 - 5.30	\$ 3,745,000	\$ 3,595,000
Add: unamortized premium					<u>10,095</u>
Total Revenue Bonds, Net					<u>\$ 3,605,095</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

7. Debt Service Requirements

Debt service requirements at December 31, 2007, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2008	\$ 50,000	\$ 101,350
2009	90,000	98,550
2010	90,000	94,950
2011	95,000	91,250
2012	100,000	87,350
2013 - 2017	550,000	373,750
2018 - 2022	685,000	250,850
2023 - 2027	855,000	93,838
Total	\$ 2,515,000	\$ 1,191,888

Business-Type Activities

Year Ending December 31	General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2008	\$ 35,000	\$ 53,750	\$ 80,000	\$ 177,618
2009	35,000	52,000	80,000	174,818
2010	40,000	50,250	85,000	171,717
2011	40,000	48,250	85,000	168,233
2012	45,000	46,250	90,000	164,423
2013 - 2017	245,000	196,750	505,000	756,056
2018 - 2022	320,000	128,000	625,000	617,913
2023 - 2027	315,000	40,250	795,000	437,384
2028 - 2032	-	-	1,015,000	201,889
2033	-	-	235,000	6,228
Total	\$ 1,075,000	\$ 615,500	\$ 3,595,000	\$ 2,876,279

Year Ending December 31	USDA Loan Principal
2008	\$ 44,444
2009	44,444
2010	44,444
2011	44,444
2012	44,444
2013 - 2014	62,965
Total	\$ 285,185

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

8. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Long-term liabilities					
G.O. jail bonds payable	\$ 2,515,000	\$ -	\$ -	\$ 2,515,000	\$ 50,000
Unamortized issuance premium	48,838	-	2,452	46,386	-
Capital leases	182,417	-	25,638	156,779	22,474
Compensated absences	225,004	154,898	154,896	225,006	118,322
	<u>2,971,259</u>	<u>154,898</u>	<u>182,986</u>	<u>2,943,171</u>	<u>190,796</u>
Governmental Activities Long-Term Liabilities	<u>\$ 2,971,259</u>	<u>\$ 154,898</u>	<u>\$ 182,986</u>	<u>\$ 2,943,171</u>	<u>\$ 190,796</u>

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-Type Activities					
Long-term liabilities					
Bonds payable					
General obligation					
refunding bonds	\$ 1,110,000	\$ -	\$ 35,000	\$ 1,075,000	\$ 35,000
Revenue bonds	3,670,000	-	75,000	3,595,000	80,000
Deferred amounts for issuance premium/discounts	5,018	-	119	4,899	-
Total bonds payable	\$ 4,785,018	\$ -	\$ 110,119	\$ 4,674,899	\$ 115,000
Loan payable	329,630	-	44,445	285,185	44,444
Compensated absences	94,206	99,846	98,990	95,062	95,062
	<u>5,208,854</u>	<u>99,846</u>	<u>253,554</u>	<u>5,055,146</u>	<u>254,506</u>
Business-Type Activities Long-Term Liabilities	<u>\$ 5,208,854</u>	<u>\$ 99,846</u>	<u>\$ 253,554</u>	<u>\$ 5,055,146</u>	<u>\$ 254,506</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

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

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund.

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

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.75 percent, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan increased in 2008 to 6.00 percent. Public Employees Police and Fire Fund members were required to contribute 7.80 percent of their annual covered salary in 2007. That rate increased to 8.60 percent in 2008. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2007 and 2008:

	2007	2008
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.25	6.50
Public Employees Police and Fire Fund	11.70	12.90
Public Employees Correctional Fund	8.75	8.75

The County's contributions for the years ending December 31, 2007, 2006, and 2005, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2007	2006	2005
Public Employees Retirement Fund	\$ 202,631	\$ 194,652	\$ 177,388
Public Employees Police and Fire Fund	21,745	18,004	13,821
Public Employees Correctional Fund	11,420	N/A	N/A

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

B. Defined Contribution Plan

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

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

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2007, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 210	\$ 210
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

5. Risk Management

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

5. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$400,000 per claim in 2007 and \$410,000 per claim in 2008. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

6. Concentration of Credit Risk

The Traverse Care Center grants credit without collateral to its residents, most of whom are local individuals and are insured under third-party payor agreements. The mix of receivables from residents and third-party payors are as follows at December 31, 2007:

Medicare	17%
Medicaid	30
Resident and other third-party payors	<u>53</u>
Total	<u>100%</u>

7. Summary of Significant Contingencies and Other Items

A. Claims and Litigation

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

A. Claims and Litigation (Continued)

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

B. Residents' Trust Deposits

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

C. Joint Ventures

Stevens Traverse Grant Public Health Nursing Service

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

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

Financing is provided by state grants; appropriations from Grant, Stevens, and Traverse Counties; and charges for services. Traverse County's contribution for 2007 was \$111,948, based on a cost allocation plan developed by Fiscal Officer, Karen Folkens.

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

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Mid-State Community Health Services

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

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

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

Rainbow Rider Transit Board

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

Complete financial statements for Rainbow Rider can be obtained from its administrative office at:

Rainbow Rider Transit Board
P. O. Box 136
Lowry, Minnesota 56349

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Minnesota River Basin Joint Powers

Traverse County entered into a joint powers agreement to promote the orderly water quality improvement and management of the Minnesota River watershed, pursuant to Minn. Stat. § 471.59. The management of the Joint Powers is vested in the Board of Directors consisting of one member and alternate from each County Board of Commissioners included in this agreement. According to the latest information available, 37 counties are members under this agreement.

Financing is provided by a contribution from each member county based on its share of the annual budget. Traverse County did not contribute any funds to the Joint Powers in 2007.

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

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

Area Agency on Aging

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

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

Area Agency on Aging (Continued)

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

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

Area Agency on Aging
P. O. Box 726
Fergus Falls, Minnesota 56537

Prime West Central County-Based Purchasing Initiative

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

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

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

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Prime West Central County-Based Purchasing Initiative (Continued)

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

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

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

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.

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.

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations

Traverse County Connections (Continued)

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

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

Financing is provided by state and federal grants and contributions from the member parties. Traverse County, in an agent capacity, reports the cash transactions of Traverse County Connections as an agency fund on its financial statements. The County did not contribute any funds in 2007.

E. Related Organization

Traverse County Housing and Redevelopment Authority (HRA)

The Traverse County HRA has its own governing board appointed by the Traverse County Board of Commissioners. The County's accountability for the organization does not extend beyond making the appointments. In 2005, the HRA issued \$1,190,000 General Obligation Governmental Housing Refunding Bonds on behalf of Traverse County, which is responsible for making the payments. The balance of this debt outstanding is \$1,069,804, net of discount and unamortized issuance costs.

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REQUIRED SUPPLEMENTARY INFORMATION

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,173,846	\$ 2,173,846	\$ 2,013,437	\$ (160,409)
Special assessments	-	-	56,016	56,016
Licenses and permits	8,990	8,990	12,087	3,097
Intergovernmental	272,582	272,582	507,052	234,470
Charges for services	148,900	148,900	160,707	11,807
Fines and forfeits	2,000	2,000	725	(1,275)
Investment earnings	50,000	50,000	155,226	105,226
Miscellaneous	312,888	312,888	316,345	3,457
Total Revenues	\$ 2,969,206	\$ 2,969,206	\$ 3,221,595	\$ 252,389
Expenditures				
Current				
General government				
Commissioners	\$ 196,465	\$ 196,465	\$ 204,707	\$ (8,242)
Courts	200	200	3,238	(3,038)
Law library	9,000	9,000	11,923	(2,923)
County coordinator	87,729	87,729	86,442	1,287
County auditor	261,539	261,539	194,382	67,157
License bureau	65,514	65,514	80,522	(15,008)
County treasurer	-	-	48,057	(48,057)
County assessor	113,073	113,073	115,950	(2,877)
Elections	-	-	2,569	(2,569)
Accounting and auditing	35,000	35,000	56,866	(21,866)
Data processing	71,700	71,700	43,947	27,753
Attorney	69,064	69,064	48,529	20,535
Recorder	145,782	145,782	179,446	(33,664)
Buildings and plant	97,843	97,843	150,729	(52,886)
Veterans service officer	95,556	95,556	97,240	(1,684)
Unallocated	185,167	185,167	98,294	86,873
Total general government	\$ 1,433,632	\$ 1,433,632	\$ 1,422,841	\$ 10,791
Public safety				
Sheriff	\$ 652,400	\$ 652,400	\$ 665,902	\$ (13,502)
Boat and water	3,000	3,000	1,564	1,436
Coroner	2,000	2,000	5,125	(3,125)
Enhanced 911 system	25,000	25,000	8,614	16,386
Jail	-	-	134,200	(134,200)
Probation officer	259,016	259,016	279,568	(20,552)
Civil defense	29,569	29,569	57,335	(27,766)
Total public safety	\$ 970,985	\$ 970,985	\$ 1,152,308	\$ (181,323)

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

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**Schedule 1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<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	\$ -	\$ -	\$ 15,074	\$ (15,074)
Recycling	57,096	57,096	77,863	(20,767)
Total sanitation	\$ 57,096	\$ 57,096	\$ 92,937	\$ (35,841)
Health				
Nursing service	\$ 90,638	\$ 90,638	\$ 78,005	\$ 12,633
Culture and recreation				
Parks	\$ 22,306	\$ 22,306	\$ 11,414	\$ 10,892
Regional library	38,843	38,843	42,589	(3,746)
Total culture and recreation	\$ 61,149	\$ 61,149	\$ 54,003	\$ 7,146
Conservation of natural resources				
County extension	\$ 128,106	\$ 128,106	\$ 129,660	\$ (1,554)
Soil and water conservation	127,749	127,749	128,679	(930)
Agricultural society/County fair	10,000	10,000	10,000	-
Weed control	45,676	45,676	50,940	(5,264)
Total conservation of natural resources	\$ 311,531	\$ 311,531	\$ 319,279	\$ (7,748)
Economic development				
Community development	\$ 8,375	\$ 8,375	\$ 2,325	\$ 6,050
Debt service				
Principal	\$ 10,500	\$ 10,500	\$ 25,638	\$ (15,138)
Interest	\$ 25,300	\$ 25,300	\$ 5,074	\$ 20,226
Total Expenditures	\$ 2,969,206	\$ 2,969,206	\$ 3,152,410	\$ (183,204)

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

***Schedule 1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<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	\$ -	\$ -	\$ 69,185	\$ 69,185
Other Financing Sources (Uses)				
Transfers out	-	-	(10,000)	(10,000)
Net Change in Fund Balance	\$ -	\$ -	\$ 59,185	\$ 59,185
Fund Balance - January 1	<u>1,223,744</u>	<u>1,223,744</u>	<u>1,223,744</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 1,223,744</u>	<u>\$ 1,223,744</u>	<u>\$ 1,282,929</u>	<u>\$ 59,185</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,145,078	\$ 1,145,078	\$ 1,050,001	\$ (95,077)
Intergovernmental	4,194,655	4,194,655	2,230,559	(1,964,096)
Charges for services	140,000	140,000	161,858	21,858
Miscellaneous	85,000	85,000	23,873	(61,127)
Total Revenues	\$ 5,564,733	\$ 5,564,733	\$ 3,466,291	\$ (2,098,442)
Expenditures				
Current				
Highways and streets				
Administration	\$ 410,887	\$ 410,887	\$ 850,201	\$ (439,314)
Maintenance	826,610	826,610	659,110	167,500
Construction	2,704,168	2,704,168	671,680	2,032,488
Equipment maintenance and shop	873,003	873,003	545,824	327,179
Materials and services for resale	43,832	43,832	45,600	(1,768)
Total highways and streets	\$ 4,858,500	\$ 4,858,500	\$ 2,772,415	\$ 2,086,085
Intergovernmental				
Highways and streets	-	-	161,239	(161,239)
Total Expenditures	\$ 4,858,500	\$ 4,858,500	\$ 2,933,654	\$ 1,924,846
Excess of Revenues Over (Under) Expenditures	\$ 706,233	\$ 706,233	\$ 532,637	\$ (173,596)
Fund Balance - January 1	11,141	11,141	11,141	-
Increase (decrease) in reserved for inventories	-	-	6,869	6,869
Fund Balance - December 31	\$ 717,374	\$ 717,374	\$ 550,647	\$ (166,727)

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 748,966	\$ 748,966	\$ 658,489	\$ (90,477)
Intergovernmental	527,311	527,311	738,430	211,119
Charges for services	3,500	3,500	7,020	3,520
Miscellaneous	71,700	71,700	104,224	32,524
Total Revenues	\$ 1,351,477	\$ 1,351,477	\$ 1,508,163	\$ 156,686
Expenditures				
Current				
Human services				
Income maintenance	\$ 500,354	\$ 500,354	\$ 481,128	\$ 19,226
Social services	851,123	851,123	695,301	155,822
Total Expenditures	\$ 1,351,477	\$ 1,351,477	\$ 1,176,429	\$ 175,048
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ -	\$ 331,734	\$ 331,734
Fund Balance - January 1	552,233	552,233	552,233	-
Fund Balance - December 31	\$ 552,233	\$ 552,233	\$ 883,967	\$ 331,734

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2007**

1. Budgetary Information

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

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

The appropriated budget is prepared by fund, function, and department. The County's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level. During the year, the Board made no budgetary amendments. Encumbrance accounting is employed in governmental funds.

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

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2007, expenditures exceeded appropriations in the General Fund by \$183,204. These expenditures in excess of budget were funded by greater than anticipated revenues in the General Fund.

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SUPPLEMENTARY INFORMATION

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUND

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

CAPITAL PROJECTS FUND

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

DEBT SERVICE FUNDS

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

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

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Statement A-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

	Building Special Revenue	Capital Equipment Capital Projects	Debt Service (Statement B-1)	Total
<u>Assets</u>				
Cash and pooled investments	\$ 353,953	\$ 31,534	\$ 116,459	\$ 501,946
Undistributed cash in agency funds	325	-	4,066	4,391
Taxes receivable				
Current	235	-	2,968	3,203
Prior	143	-	595	738
Due from other funds	7,948	-	-	7,948
	\$ 362,604	\$ 31,534	\$ 124,088	\$ 518,226
Total Assets	\$ 362,604	\$ 31,534	\$ 124,088	\$ 518,226
 <u>Liabilities and Fund Balances</u>				
Liabilities				
Deferred revenue - unavailable	\$ 378	\$ -	\$ 3,563	\$ 3,941
Fund Balances				
Unreserved				
Designated for capital equipment	\$ -	\$ 31,534	\$ -	\$ 31,534
Designated for debt service	-	-	97,246	97,246
Undesignated	362,226	-	23,279	385,505
Total Fund Balances	\$ 362,226	\$ 31,534	\$ 120,525	\$ 514,285
Total Liabilities and Fund Balances	\$ 362,604	\$ 31,534	\$ 124,088	\$ 518,226

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Statement A-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Building Special Revenue</u>	<u>Capital Equipment Capital Projects</u>	<u>Debt Service (Statement B-2)</u>	<u>Total</u>
Revenues				
Taxes	\$ 12,756	\$ -	\$ 166,709	\$ 179,465
Intergovernmental	1,286	-	-	1,286
Miscellaneous	61,592	-	-	61,592
Total Revenues	<u>\$ 75,634</u>	<u>\$ -</u>	<u>\$ 166,709</u>	<u>\$ 242,343</u>
Expenditures				
Current				
General government	\$ 1,806	\$ -	\$ -	\$ 1,806
Debt service				
Interest	-	-	68,233	68,233
Total Expenditures	<u>\$ 1,806</u>	<u>\$ -</u>	<u>\$ 68,233</u>	<u>\$ 70,039</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 73,828</u>	<u>\$ -</u>	<u>\$ 98,476</u>	<u>\$ 172,304</u>
Fund Balance - January 1	<u>288,398</u>	<u>31,534</u>	<u>22,049</u>	<u>341,981</u>
Fund Balance - December 31	<u><u>\$ 362,226</u></u>	<u><u>\$ 31,534</u></u>	<u><u>\$ 120,525</u></u>	<u><u>\$ 514,285</u></u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Statement B-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL DEBT SERVICE FUNDS
DECEMBER 31, 2007**

	Capital Equipment	Jail/LEC	Total (Statement A-1)
<u>Assets</u>			
Cash and pooled investments	\$ 19,213	\$ 97,246	\$ 116,459
Undistributed cash in agency funds	4,066	-	4,066
Taxes receivable			
Current	2,968	-	2,968
Prior	595	-	595
	\$ 26,842	\$ 97,246	\$ 124,088
Total Assets	\$ 26,842	\$ 97,246	\$ 124,088
 <u>Liabilities and Fund Balances</u>			
Liabilities			
Deferred revenue - unavailable	\$ 3,563	\$ -	\$ 3,563
Fund Balances			
Unreserved			
Designated for debt service	\$ -	\$ 97,246	\$ 97,246
Undesignated	23,279	-	23,279
Total Fund Balances	\$ 23,279	\$ 97,246	\$ 120,525
Total Liabilities and Fund Balances	\$ 26,842	\$ 97,246	\$ 124,088

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Statement B-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Capital Equipment	Jail/LEC	Total (Statement A-2)
Revenues			
Taxes	\$ 1,230	\$ 165,479	\$ 166,709
Expenditures			
Debt service			
Interest	-	68,233	68,233
Excess of Revenues Over (Under)			
Expenditures	\$ 1,230	\$ 97,246	\$ 98,476
Fund Balance - January 1	22,049	-	22,049
Fund Balance - December 31	\$ 23,279	\$ 97,246	\$ 120,525

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
BUILDING SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 14,434	\$ 14,434	\$ 12,756	\$ (1,678)
Intergovernmental	565	565	1,286	721
Miscellaneous	-	-	61,592	61,592
Total Revenues	\$ 14,999	\$ 14,999	\$ 75,634	\$ 60,635
Expenditures				
Current				
General government				
Buildings and plant	-	-	1,806	(1,806)
Excess of Revenues Over (Under)				
Expenditures	\$ 14,999	\$ 14,999	\$ 73,828	\$ 58,829
Fund Balance - January 1	182,254	182,254	288,398	106,144
Fund Balance - December 31	\$ 197,253	\$ 197,253	\$ 362,226	\$ 164,973

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
JAIL/LEC DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 190,000	\$ 190,000	\$ 165,479	\$ (24,521)
Expenditures				
Debt service				
Principal	\$ 190,000	\$ 190,000	\$ -	\$ 190,000
Interest	-	-	68,233	(68,233)
Total Expenditures	\$ 190,000	\$ 190,000	\$ 68,233	\$ 121,767
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 97,246	\$ 97,246
Fund Balance - January 1	-	-	-	-
Fund Balance - December 31	\$ -	\$ -	\$ 97,246	\$ 97,246

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

AGENCY FUNDS

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

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

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

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

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

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

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Statement C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Balance January 1	Additions	Deductions	Balance December 31
<u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 895,606	\$ 897,307	\$ (1,701)
Due from other governments	-	1,701	-	1,701
Total Assets	\$ -	\$ 897,307	\$ 897,307	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 897,307	\$ 897,307	\$ -
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 20,368	\$ 369,176	\$ 368,972	\$ 20,572
<u>Liabilities</u>				
Due to other governments	\$ 20,368	\$ 369,176	\$ 368,972	\$ 20,572
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 65,786	\$ 2,564,506	\$ 2,561,461	\$ 68,831
<u>Liabilities</u>				
Due to other governments	\$ 65,786	\$ 2,564,506	\$ 2,561,461	\$ 68,831

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Statement C-1
(Continued)

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 1,435,313	\$ 1,435,313	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 1,435,313	\$ 1,435,313	\$ -
 <u>TRAVERSE COUNTY CONNECTIONS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 13,006	\$ 19,157	\$ 13,171	\$ 18,992
<u>Liabilities</u>				
Due to other governments	\$ 13,006	\$ 19,157	\$ 13,171	\$ 18,992
 <u>COMMUNITIES UNITED IN PARTNERSHIP</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 11,663	\$ -	\$ -	\$ 11,663
<u>Liabilities</u>				
Due to other governments	\$ 11,663	\$ -	\$ -	\$ 11,663

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Statement C-1
(Continued)

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 110,823	\$ 5,283,758	\$ 5,276,224	\$ 118,357
Due from other governments	-	1,701	-	1,701
Total Assets	\$ 110,823	\$ 5,285,459	\$ 5,276,224	\$ 120,058
<u>Liabilities</u>				
Due to other governments	\$ 110,823	\$ 5,285,459	\$ 5,276,224	\$ 120,058

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OTHER SCHEDULES

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Schedule 6

**SCHEDULE OF DEPOSITS AND INVESTMENTS
DECEMBER 31, 2007**

	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Fair Value</u>
Cash and Pooled Investments			
Cash on hand	-	-	\$ 1,700
Noninterest-bearing checking (two)	-	Continuous	1,939,518
Interest-bearing checking (three)	0.10 to 1.98	Continuous	54,066
Money market savings (three)	2.72 to 3.64	Continuous	1,155,052
Certificates of deposit (four)	4.00 to 5.00	May 1, 2008 to December 1, 2008	379,335
Mutual funds (two)	1.60 to 4.65	Continuous	39,903
U.S. Treasury strip	-	November 15, 2008	220,782
Federal Home Loan Mortgage Corporation (two)	4.25 to 5.00	June 15, 2018 to March 28, 2019	186,993
Broker-held money markets (two)	0.50 to 0.69	Continuous	<u>5,152</u>
Total Cash and Pooled Investments			<u>\$ 3,982,501</u>
Investments from Funds			
General Fund			
Certificates of deposit (two)	4.00 to 5.00	April 2, 2008 to May 19, 2009	<u>\$ 95,448</u>
Traverse Care Center Enterprise Fund			
Interest-bearing checking (two)	0.10 to 0.60	Continuous	\$ 39,906
Certificates of deposit (three)	4.00 to 5.00	April 2, 2008 to December 31, 2008	<u>50,398</u>
Total Traverse Care Center Enterprise Fund			<u>\$ 90,304</u>
Total Investments from Funds			<u>\$ 185,752</u>

**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Schedule 7

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Shared Revenue

State

Highway users tax	\$ 1,880,415
Program aid	147,181
Market value credit (MVC)	118,743
Mobile home MVC	614
MVC - agricultural	74,758
PERA rate reimbursement	16,482
Disparity reduction aid	18,596
Police aid	19,272
Wetland reimbursement credit	3,806
	3,806

Total Shared Revenue

\$ 2,279,867

Reimbursement for Services

State

Minnesota Department of Human Services	\$ 360,207
	360,207

Payments

Local

Payments in lieu of taxes	\$ 16,160
	16,160

Grants

State

Minnesota Department of	
Examining Boards	\$ 2,412
Corrections	14,215
Public Safety	81,199
Natural Resources	2,350
Human Services	239,441
Water and Soil Resources Board	52,030
Office of Environmental Assistance	52,039
	52,039

Total State

\$ 443,686

Federal

Department of	
Agriculture	\$ 785
Transportation	248,053
Health and Human Services	97,778
Homeland Security	30,791
	30,791

Total Federal

\$ 377,407

Total State and Federal Grants

\$ 821,093

Total Intergovernmental Revenue

\$ 3,477,327

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**TRAVERSE COUNTY
WHEATON, MINNESOTA**

Schedule 8

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2007

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-3 Segregation of Duties

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

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

Client's Response:

Traverse County is aware of a lack of segregation of some accounting functions. County management will explore oversight procedures to ensure that staff is implementing internal control policies and procedures.

06-2 Preparation of Financial Statements

Traverse County is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the County's management. Financial statement preparation in accordance with GAAP requires internal controls over both: (1) recording, processing, and summarizing accounting data (maintaining internal books and records); and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

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

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

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

Client's Response:

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

06-3 Audit Adjustments

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the financial statements on a timely basis. Statement on Auditing Standards No. 112 states that one control deficiency that shall be regarded as at least a significant deficiency is identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls, even if management subsequently corrects the misstatement.

During our audit, we identified material adjustments in the General Fund. An audit adjustment was made to increase investment earnings by \$94,185, correcting an entry made to the general ledger twice. Another adjustment was made to defer revenue in the amount of \$52,753 for a portion of a Natural Resource Block Grant received in 2007, but not earned until 2008. An adjustment was made to reclassify \$51,679 in market value credits from miscellaneous revenue to intergovernmental revenue. Material adjustments were made to the Road and Bridge Special Revenue Fund to defer revenues in the amount of \$168,022 for receivables not available during the revenue recognition period. An adjustment was made to reclassify \$2,781,744 posted as miscellaneous revenue to highway user tax revenue in the amount of \$1,909,696, federal revenue in the amount of \$127,731, tax revenue in the amount of \$608,575, and charges for services in the amount of \$135,742. An adjustment was made to reclassify accounts payable to contracts payable in the amount of \$100,415. A material adjustment was made to the Building Special Revenue Fund to reclassify \$74,023 posted as miscellaneous revenue to taxes in the amount of \$12,836 and insurance dividends in the amount of \$61,187. A material adjustment was made to the Jail/LEC Construction Capital Projects Fund to reduce capital outlay by \$69,141 by reclassifying a sales tax rebate posted to miscellaneous revenue in the amount of \$39,616 and by reclassifying law enforcement center and jail expenses in the amount of \$29,525 that were posted as capital outlay. A material adjustment was made in the Jail/LEC Debt Service Fund to reclassify \$165,479 from miscellaneous revenue to property tax revenue. Material adjustments were also necessary to adjust modified accrual financial statements to the full accrual basis for the government-wide financial statements.

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

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

Client's Response:

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

PREVIOUSLY REPORTED ITEM RESOLVED

Budget Documentation (06-1)

The County Board-adopted budgets and the published budgets did not reconcile to the detail in the County's financial system or other schedules.

Resolution

The County Board-adopted budgets and the published budgets could be reconciled to the detailed budgets in the County financial system or other detailed budget schedules provided for 2007.

II. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

07-1 Collateral Pledged to Secure Deposits

At December 31, 2007, deposits with State Bank of Wheaton exceeded the amount of federal deposit insurance and collateral pledged by \$371,982. Minn. Stat. § 118A.03, subd. 3, set forth the requirement that, "[t]he total amount of the collateral computed at its market value shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day."

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

Client's Response:

The County will monitor all bank balances to make sure that sufficient collateral is pledged pursuant to Minn. Stat. § 118A.03, subd. 3.

PREVIOUSLY REPORTED ITEMS RESOLVED

Depository Pledge Agreement (04-2)

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

Resolution

A new pledge agreement was signed in 2008, which provides that, upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged. This language is in compliance with Minn. Stat. § 118A.03, subd. 4.

Cash Overdraft (06-4)

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

Resolution

The Road and Bridge Special Revenue Fund had a positive cash balance at December 31, 2007.

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 \$116,707 at December 31, 2007. Prairieview Place had a net operating income of \$17,316. The deficit financial condition resulted from the costs of borrowing to finance the construction of the congregate housing project.

Whenever an asset is constructed and financed from debt, it is common to have deficit net assets during the early years of operation. The net asset deficit increased in 2007 due to a net loss of \$35,797, resulting from interest expense, offset with a transfer from the General Fund of \$10,000.

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

Client's Response:

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

PREVIOUSLY REPORTED ITEM RESOLVED

Consolidated General Ledger (02-12)

A separate general ledger was maintained by the Road and Bridge Department. The detailed financial transactions recorded in the Road and Bridge general ledger were interfaced with the County's main general ledger, maintained by the County Auditor, as "batched" totals.

Resolution

In 2007, the County's main general ledger includes the detailed postings for the Road and Bridge Special Revenue Fund, except payroll, which is posted to administrative expense. The detailed breakdown of expenses for payroll was available from the Road and Bridge Department.

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. This standard, similar to what GASB Statement 27 did for government employee pension benefits and plans, provides the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

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

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

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

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

- determine if employees are provided OPEB;
- if OPEB are being provided, the Traverse County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the Traverse County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the Traverse County Board will have to comply with the new legislation enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard;
- if an OPEB trust will be established, the Traverse County Board will have to decide whether to establish a revocable or an irrevocable trust, and report that trust appropriately in the financial statements; and
- in order to determine annual costs and liabilities that need to be recognized, the Traverse County Board will have to decide whether to hire an actuary.

Schedule 8
(Continued)

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



REBECCA OTTO
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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, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 23, 2009. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Traverse Care Center Enterprise Fund, as described in our report on Traverse County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 96-3, 06-2, and 06-3 to be significant deficiencies in internal control over financial reporting.

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

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

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, Traverse County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as item 07-1.

Also included in the Schedule of Findings and Recommendations is a management practices comment and an other item for consideration. We believe this recommendation and information to be of benefit to Traverse County, and they are reported for that purpose.

Traverse County's written responses to the significant deficiencies, material weakness, legal compliance finding, and management practices finding identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit the County's responses and, accordingly, we express no opinion on them.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

March 23, 2009