STATE OF MINNESOTA
Office of the State Auditor

Rebecca Otto
State Auditor

TRAVERSE COUNTY
WHEATON, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2013

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

For the Year Ended December 31, 2013

Audit Practice Division
Office of the State Auditor
State of Minnesota

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TRAVERSE COUNTY
WHEATON, MINNESOTA

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WHEATON, MINNESOTA

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Introductory Section

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TRAVERSE COUNTY
WHEATON, MINNESOTA

ORGANIZATION
DECEMBER 31, 2013

			Term Expires
Elected			
Commissioners			
Board Member	Todd Johnson	District 1	January 2015
Chair	Kevin Leininger	District 2	January 2017
Board Member	Donald Appel	District 3	January 2015
Vice Chair	David Salberg	District 4	January 2017
Board Member	Jerry Deal	District 5	January 2015
Attorney	Matthew Franzese		January 2015
Auditor/Treasurer	Kit Johnson		January 2015
County Recorder	LeAnn Peyton		January 2015
Registrar of Titles	LeAnn Peyton		January 2015
County Sheriff	Brion Plautz		January 2015
Appointed			
County Coordinator	Rhonda Antrim		Indefinite
Assessor	Dianne Reinart		January 2017
County Engineer	Larry Haukos		May 2015
Coroner	Stanley Gallagher, D.O.		January 2014
Examiner of Titles	Lowell Nelson		Indefinite
Social Services Director	Rhonda Antrim		Indefinite
Veterans Service Officer	Dustin Kindelberger		April 2015

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Traverse County

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, 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 December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2013 the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34,* and Statement No. 65, *Items Previously Reported as Assets and Liabilities,* which represent changes in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2014, 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, and 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* in considering Traverse County's internal control over financial reporting and compliance.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

September 29, 2014

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MANAGEMENT’S DISCUSSION AND ANALYSIS

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TRAVERSE COUNTY
WHEATON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013
(Unaudited)

INTRODUCTION

The Management's Discussion and Analysis (MD&A) provides an overview and analysis of Traverse County's financial activities for the fiscal year ended December 31, 2013. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is $41,566,345, of which $35,539,807 is the net investment in capital assets. Of the governmental activities' net position, $1,664,650 is restricted to specific purposes/uses by the County, and $4,361,888 is unrestricted.

- Business-type activities (Traverse Care Center and Prairieview Place) have a deficit total net position of $796,137, of which there is a negative net investment in capital assets balance of $709,578.

- Traverse County's net position increased by $90,090 for the year ended December 31, 2013. Of the increase, $290,956 was in the governmental activities' net position, while the business-type activities' net position decreased by $200,866.

- The net cost of Traverse County's governmental activities for the year ended December 31, 2013, was $4,780,363. General revenues totaling $5,071,319 funded the net cost.

- Traverse County's governmental funds' fund balances decreased by $546,736 in 2013. This net decrease consisted of a $163,342 increase in the General Fund, a decrease of $758,131 in the Road and Bridge Special Revenue Fund, an increase of $37,745 in the Social Services Special Revenue Fund, and a $10,308 increase in the Jail/LEC Debt Service Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. The basic financial statements consist of three parts: (1) government-wide financial statements, (2) fund level financial statements, and (3) notes to the financial statements. This report also contains other required supplementary information. The following chart demonstrates how the different pieces are interrelated.

Management's Discussion and Analysis (Required Supplementary Information)	
Government-Wide Financial Statements	**Fund Financial Statements**
Notes to the Financial Statements	
Required Supplementary Information (Other than Management's Discussion and Analysis)	

Traverse County presents two government-wide financial statements: the Statement of Net Position 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

Government-wide financial statements are designed to provide readers with a broad overview of the County's finances in a manner similar to a private-sector business.

The Statement of Net Position presents information on all assets and liabilities of the County using the accrual basis of accounting, with the difference being reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial health of the County is improving or deteriorating. It is important to consider other nonfinancial factors, such as changes in the County's property tax base and the condition of County roads and other capital assets, to assess the overall health of the County.

The Statement of Activities presents the County's governmental activities. Most of the 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. The County has Traverse Care Center and Prarieview Place reported under business-type activities.

The government-wide statements are Exhibits 1 and 2 of this report.

Fund Level Financial Statements

Fund financial statements provide detailed information about the major funds--not the County as a whole. Some funds are required to be established by state law or by bond covenants. However, the 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.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using modified accrual accounting. Such information may be useful in evaluating a government’s near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County’s near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County adopts an annual appropriated budget for its General Fund, Road and Bridge Special Revenue Fund, Social Services Special Revenue Fund, and the Jail/LEC Debt Service Fund. Budgetary comparison schedules have been provided as either required or other supplementary information for each of these funds to demonstrate compliance with this budget.

The basic governmental fund financial statements are Exhibits 3 through 6 of this report.

Proprietary funds are used to account for operations financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing services to the general public be financed or recovered primarily through user charges. The Traverse Care Center and Prarieview Place are included in the proprietary fund reporting. The proprietary funds are Exhibits 7 through 9 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside of the County. Fiduciary funds are not reflected in the government-wide statements because the resources of these funds are not available to support the County’s own programs or activities.

The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All fiduciary activities are reported in a separate Statement of Fiduciary Net Position as Exhibit 10.

Notes to the Financial Statements

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28 through 74 of this report.

Other Information

Other information is provided as supplementary information regarding Traverse County's intergovernmental revenue and federal awards programs.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Assets						
Current and other assets	$ 8,754,372	$ 10,387,496	$ 1,139,503	$ 3,863,413	$ 9,893,875	$ 14,250,909
Capital assets	37,606,147	35,175,257	3,297,762	3,526,629	40,903,909	38,701,886
Total Assets	$ 46,360,519	$ 45,562,753	$ 4,437,265	$ 7,390,042	$ 50,797,784	$ 52,952,795
Deferred Outflows of Resources						
Deferred charges on bond refunding	$ -	$ -	$ 81,537	$ -	$ 81,537	$ -
Liabilities						
Long-term liabilities	$ 3,977,082	$ 3,759,598	$ 5,276,904	$ 7,855,423	$ 9,253,986	$ 11,615,021
Other liabilities	817,092	527,766	38,035	129,890	855,127	657,656
Total Liabilities	$ 4,794,174	$ 4,287,364	$ 5,314,939	$ 7,985,313	$ 10,109,113	$ 12,272,677
Net Position						
Net investment in capital assets	$ 35,539,807	$ 33,007,722	$ (709,578)	$ (446,946)	$ 34,830,229	$ 32,560,776
Restricted	1,664,650	2,254,358	-	-	1,664,650	2,254,358
Unrestricted	4,361,888	6,013,309	(86,559)	(148,325)	4,275,329	5,864,984
Total Net Position	$ 41,566,345	$ 41,275,389	$ (796,137)	$ (595,271)	$ 40,770,208	$ 40,680,118

Traverse County's total net position as of December 31, 2013, is $40,770,208. The governmental activities' unrestricted net position totaling $4,361,888 is available to finance the day-to-day operations of the governmental activities of the County. The business-related activities of the County face a deficit unrestricted net position of $(86,559).

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Revenues						
Program revenues						
Fees, fines, and charges	$ 1,099,002	$ 1,207,540	$ 15,500	$ 92,204	$ 1,114,502	$ 1,299,744
Operating grants and contributions	3,878,306	4,631,103	-	-	3,878,306	4,631,103
Capital grants and contributions	592,684	240,056	-	-	592,684	240,056
General revenues						
Property taxes	4,656,687	4,630,115	-	-	4,656,687	4,630,115
Other taxes	4,212	25,276	-	-	4,212	25,276
Grants, gifts, and miscellaneous	410,420	441,169	393,908	419,166	804,328	860,335
Total Revenues	$ 10,641,311	$ 11,175,259	$ 409,408	$ 511,370	$ 11,050,719	$ 11,686,629
Expenses						
General government	$ 1,541,822	$ 1,687,521	$ -	$ -	$ 1,541,822	$ 1,687,521
Public safety	1,584,579	1,703,435	-	-	1,584,579	1,703,435
Highways and streets	5,054,279	4,181,505	-	-	5,054,279	4,181,505
Sanitation	132,409	120,127	-	-	132,409	120,127
Human services	1,421,116	1,400,074	-	-	1,421,116	1,400,074
Health	76,785	70,957	-	-	76,785	70,957
Culture and recreation	58,152	64,982	-	-	58,152	64,982
Conservation of natural resources	354,405	407,487	-	-	354,405	407,487
Economic development	6,159	5,800	-	-	6,159	5,800
Interest	120,649	93,807	-	-	120,649	93,807
Traverse Care Center	-	-	454,539	574,886	454,539	574,886
Prairieview Place	-	-	155,735	94,122	155,735	94,122
Total Expenses	$ 10,350,355	$ 9,735,695	$ 610,274	$ 669,008	$ 10,960,629	$ 10,404,703
Increase (Decrease) in Net Position	$ 290,956	$ 1,439,564	$ (200,866)	$ (157,638)	$ 90,090	$ 1,281,926
Net Position - January 1	41,275,389	39,835,825	(595,271)	(437,633)	40,680,118	39,398,192
Net Position - December 31	$ 41,566,345	$ 41,275,389	$ (796,137)	$ (595,271)	$ 40,770,208	$ 40,680,118

The County's activities increased net position by 0.22 percent ($40,770,208 for 2013 compared to $40,680,118 for 2012).

Governmental Activities

The cost of all governmental activities in 2013 was $10,350,355. 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 $5,071,319, because some of the cost was paid by those who directly benefited from the programs ($1,099,002) or by other governments and organizations that subsidized certain programs with grants and contributions ($4,470,990).

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	
	2013	2012	2013	2012
Highways and streets	$ 5,054,279	$ 4,181,505	$ 1,249,757	$ 286,449
Public safety	1,584,579	1,703,435	984,530	819,888
General government	1,541,822	1,687,521	1,374,037	1,449,195
Human services	1,421,116	1,400,074	647,517	597,757
Conservation of natural resources	354,405	407,487	254,873	344,553
All others	394,154	355,673	269,649	159,154
Total	$ 10,350,355	$ 9,735,695	$ 4,780,363	$ 3,656,996

Business-Type Activities

Revenues for Traverse County's business-type activities (see Table 2) were $409,408, and expenses were $610,274.

The County's Funds

Upon completing the year, Traverse County's governmental funds' fund balance decreased by $546,736. This decrease was due to an increase of $163,342 in the General Fund, an increase of $37,745 in the Social Services Special Revenue Fund, an increase of $10,308 in the Jail/LEC Debt Service Fund, and a decrease of $758,131 in the Road and Bridge 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 2013.

Actual revenues exceeded budgeted revenues in the General Fund by $153,241, primarily due to intergovernmental revenues of $185,869 over projections, charges for services $64,129 over projected totals, and tax collections of $43,251 over projections; offset by miscellaneous revenue of $117,706 under the projected total.

Actual expenditures were less than budgeted expenditures in the General Fund by $10,101.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2013, Traverse County had $40,903,909 in a broad range of capital assets, net of accumulated depreciation. The investment in capital assets includes land, buildings, bridges, highways, machinery, furniture, and equipment (see Table 4). The investment in capital assets increased $2,202,023, or 5.69 percent, from the previous year.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Land	$ 178,352	$ 178,352	$ 16,175	$ 16,175	$ 194,527	$ 194,527
Right-of-way	962,548	947,467	-	-	962,548	947,467
Construction in progress	66,701	-	-	-	66,701	-
Buildings	3,166,142	3,284,320	3,260,461	3,478,231	6,426,603	6,762,551
Land improvements	86,223	89,788	1,254	2,109	87,477	91,897
Machinery, furniture, and equipment	1,605,860	1,593,566	19,872	30,114	1,625,732	1,623,680
Infrastructure	31,540,321	29,081,764	-	-	31,540,321	29,081,764
Totals	$ 37,606,147	$ 35,175,257	$ 3,297,762	$ 3,526,629	$ 40,903,909	$ 38,701,886

Long-Term Debt

As of December 31, 2013, Traverse County had $6,814,814 in long-term obligations, compared with $9,557,963 as of December 31, 2012--a decrease of 28.7 percent--as shown in Table 5.

Table 5
Outstanding Debt at Year-End

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
General obligation bonds	$ 1,990,000	$ 2,090,000	$ 1,620,000	$ 880,000	$ 3,610,000	$ 2,970,000
Revenue bonds	-	-	3,190,000	6,525,000	3,190,000	6,525,000
Loans	-	-	14,814	62,963	14,814	62,963
Totals	$ 1,990,000	$ 2,090,000	$ 4,824,814	$ 7,467,963	$ 6,814,814	$ 9,557,963

During 2013, Traverse County issued General Obligation Governmental Housing Refunding Bonds, Series 2013A, in the amount of $785,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

Traverse County's elected and appointed officials considered many factors when setting the fiscal year 2014 budget and tax levy. These factors include: state aid levels, increasing input costs, appropriate fund balances, being mindful of the burden on county taxpayers, and a need to provide a certain level of services to Traverse County residents/taxpayers.

Traverse County management is constantly looking for opportunities for collaboration and efficiency. Actions taken on this front over the past few years are a major reason Traverse County has been able to keep operating costs down. As a result, Traverse County's property tax levy will be lower in 2014 than it was in 2008.

Traverse County's Board of Commissioners settled on a final 2014 levy of $4,675,375, the same as the 2013 levy.

REQUESTS FOR INFORMATION

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 POSITION
DECEMBER 31, 2013

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets			
Cash and pooled investments	$ 6,541,046	$ 1,104,503	$ 7,645,549
Investments	66,694	35,000	101,694
Taxes receivable			
Prior	67,041	-	67,041
Special assessments receivable			
Prior	6,152	-	6,152
Accounts receivable	14,116	-	14,116
Due from other governments	2,002,057	-	2,002,057
Inventories	57,266	-	57,266
Noncurrent assets			
Capital assets			
Non-depreciable	1,207,601	16,175	1,223,776
Depreciable - net of accumulated depreciation	36,398,546	3,281,587	39,680,133
Total Assets	**$ 46,360,519**	**$ 4,437,265**	**$ 50,797,784**
Deferred Outflows of Resources			
Deferred charges on bond refunding	**$ -**	**$ 81,537**	**$ 81,537**

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

TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT 1
(Continued)

STATEMENT OF NET POSITION
DECEMBER 31, 2013

	Governmental Activities	Business-Type Activities	Total
Liabilities			
Current liabilities			
Accounts payable	$ 294,734	$ 528	$ 295,262
Salaries payable	2,284	-	2,284
Contracts payable	271,182	-	271,182
Due to other governments	89,755	-	89,755
Accrued interest payable	33,934	37,507	71,441
Unearned revenue	125,203	-	125,203
Compensated absences payable - current	195,671	-	195,671
General obligation bonds payable - current	105,000	45,000	150,000
Revenue bonds payable - current	-	160,000	160,000
Leases payable - current	35,800	-	35,800
Loans payable - current	-	14,814	14,814
Noncurrent liabilities			
Compensated absences payable	117,675	-	117,675
Net OPEB liability	1,597,396	402,313	1,999,709
General obligation bonds payable	1,916,673	1,576,698	3,493,371
Revenue bonds payable	-	3,078,079	3,078,079
Leases payable	8,867	-	8,867
Total Liabilities	**$ 4,794,174**	**$ 5,314,939**	**$ 10,109,113**
Net Position			
Net investment in capital assets	$ 35,539,807	$ (709,578)	$ 34,830,229
Restricted for			
Public safety	102,985	-	102,985
Highways and streets	1,046,268	-	1,046,268
Sanitation	209,394	-	209,394
Debt service	133,753	-	133,753
Other purposes	172,250	-	172,250
Unrestricted	4,361,888	(86,559)	4,275,329
Total Net Position	**$ 41,566,345**	**$ (796,137)**	**$ 40,770,208**

TRAVERSE COUNTY
WHEATON, MINNESOTA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013

	Expenses	Fees, Charges, Fines, and Other
Functions/Programs		
Primary government		
Governmental activities		
General government	$ 1,541,822	$ 132,308
Public safety	1,584,579	479,865
Highways and streets	5,054,279	281,839
Sanitation	132,409	58,861
Human services	1,421,116	130,177
Health	76,785	-
Culture and recreation	58,152	9,694
Conservation of natural resources	354,405	6,258
Economic development	6,159	-
Interest	120,649	-
Total governmental activities	**$ 10,350,355**	**$ 1,099,002**
Business-type activities		
Traverse Care Center	$ 454,539	$ 15,500
Prairieview Place	155,735	-
Total business-type activities	**$ 610,274**	**$ 15,500**
Total Primary Government	**$ 10,960,629**	**$ 1,114,502**

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

Total general revenues

Change in net position

Net Position - Beginning

Net Position - Ending

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

Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities	Business-Type Activities	Total
$ 35,477	$ -	$ (1,374,037)	$ -	$ (1,374,037)
120,184	-	(984,530)	-	(984,530)
2,929,999	592,684	(1,249,757)	-	(1,249,757)
55,950	-	(17,598)	-	(17,598)
643,422	-	(647,517)	-	(647,517)
-	-	(76,785)	-	(76,785)
-	-	(48,458)	-	(48,458)
93,274	-	(254,873)	-	(254,873)
-	-	(6,159)	-	(6,159)
-	-	(120,649)	-	(120,649)
$ 3,878,306	**$ 592,684**	**$ (4,780,363)**	**$ -**	**$ (4,780,363)**
$ -	$ -	$ -	$ (439,039)	$ (439,039)
-	-	-	(155,735)	(155,735)
$ -	**$ -**	**$ -**	**$ (594,774)**	**$ (594,774)**
$ 3,878,306	**$ 592,684**	**$ (4,780,363)**	**$ (594,774)**	**$ (5,375,137)**
		$ 4,656,687	$ -	$ 4,656,687
		4,212	-	4,212
		212,587	-	212,587
		23,863	-	23,863
		20,490	3,399	23,889
		153,480	390,509	543,989
		$ 5,071,319	**$ 393,908**	**$ 5,465,227**
		$ 290,956	**$ (200,866)**	**$ 90,090**
		41,275,389	**(595,271)**	**40,680,118**
		$ 41,566,345	**$ (796,137)**	**$ 40,770,208**

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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, 2013

	General	Road and Bridge	Social Services	Jail/LEC Debt Service	Total
Assets					
Cash and pooled investments	$ 3,299,046	$ 369,858	$ 2,639,169	$ 165,666	$ 6,473,739
Petty cash and change funds	1,400	-	100	-	1,500
Undistributed cash in agency funds	36,708	18,933	7,613	2,553	65,807
Investments	66,694	-	-	-	66,694
Taxes receivable					
Prior	34,870	20,384	9,112	2,675	67,041
Special assessments receivable					
Prior	6,152	-	-	-	6,152
Accounts receivable	100	13,666	350	-	14,116
Due from other funds	3,755	-	-	-	3,755
Due from other governments	183,453	1,737,050	81,554	-	2,002,057
Inventories	-	57,266	-	-	57,266
Total Assets	**$ 3,632,178**	**$ 2,217,157**	**$ 2,737,898**	**$ 170,894**	**$ 8,758,127**
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities					
Accounts payable	$ 61,244	$ 195,244	$ 38,246	$ -	$ 294,734
Salaries payable	1,391	893	-	-	2,284
Contracts payable	53,956	217,226	-	-	271,182
Due to other funds	-	3,755	-	-	3,755
Due to other governments	37,079	16,915	35,761	-	89,755
Unearned revenue	-	125,203	-	-	125,203
Total Liabilities	**$ 153,670**	**$ 559,236**	**$ 74,007**	**$ -**	**$ 786,913**
Deferred Inflows of Resources					
Unavailable revenue	**$ 81,919**	**$ 1,704,898**	**$ 3,655**	**$ 1,222**	**$ 1,791,694**

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

TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT 3
(Continued)

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013

	General	Road and Bridge	Social Services	Jail/LEC Debt Service	Total
Liabilities, Deferred Inflows of Resources, and Fund Balances (Continued)					
Fund Balances					
Nonspendable					
Inventories	$ -	$ 57,266	$ -	$ -	$ 57,266
Restricted for					
Missing heirs	30,239	-	-	-	30,239
Recorder's equipment	70,799	-	-	-	70,799
Recorder's compliance fund	71,212	-	-	-	71,212
Enhanced 911	102,985	-	-	-	102,985
Solid waste assessments	209,394	-	-	-	209,394
Debt service	-	-	-	169,672	169,672
Highway allotments	-	62,649	-	-	62,649
Assigned to					
Capital projects	769,025	-	-	-	769,025
Social services	-	-	2,660,236	-	2,660,236
Unassigned	2,142,935	(166,892)	-	-	1,976,043
Total Fund Balances	**$ 3,396,589**	**$ (46,977)**	**$ 2,660,236**	**$ 169,672**	**$ 6,179,520**
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	**$ 3,632,178**	**$ 2,217,157**	**$ 2,737,898**	**$ 170,894**	**$ 8,758,127**

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

TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT 4

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2013

Fund balance - total governmental funds (Exhibit 3)		**$ 6,179,520**
Amounts reported for governmental activities in the statement of net position 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.		37,606,147
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds.		1,791,694
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	$ (2,021,673)	
Capital leases	(44,667)	
Compensated absences	(313,346)	
Accrued interest payable	(33,934)	
Net OPEB liability	(1,597,396)	(4,011,016)
Net Position of Governmental Activities (Exhibit 1)		**$ 41,566,345**

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

TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT 5

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	General	Road and Bridge	Social Services	Jail/LEC Debt Service	Total
Revenues					
Taxes	$ 2,492,659	$ 1,440,562	$ 579,921	$ 194,242	$ 4,707,384
Special assessments	58,789	-	-	-	58,789
Licenses and permits	13,173	-	-	-	13,173
Intergovernmental	445,657	4,926,887	673,888	-	6,046,432
Charges for services	487,906	250,444	28,865	-	767,215
Fines and forfeits	53	-	-	-	53
Gifts and contributions	4,000	-	-	-	4,000
Investment earnings	20,592	-	-	-	20,592
Miscellaneous	215,794	38,749	91,735	-	346,278
Total Revenues	**$ 3,738,623**	**$ 6,656,642**	**$ 1,374,409**	**$ 194,242**	**$ 11,963,916**
Expenditures					
Current					
General government	$ 1,369,525	$ -	$ -	$ -	$ 1,369,525
Public safety	1,531,105	-	-	-	1,531,105
Highways and streets	-	7,198,182	-	-	7,198,182
Sanitation	126,239	-	-	-	126,239
Human services	-	-	1,336,664	-	1,336,664
Health	76,785	-	-	-	76,785
Culture and recreation	57,204	-	-	-	57,204
Conservation of natural resources	366,340	-	-	-	366,340
Economic development	5,575	-	-	-	5,575
Intergovernmental	-	229,085	-	-	229,085
Debt service					
Principal	40,644	-	-	100,000	140,644
Interest	1,864	-	-	83,350	85,214
Administrative charges	-	-	-	584	584
Total Expenditures	**$ 3,575,281**	**$ 7,427,267**	**$ 1,336,664**	**$ 183,934**	**$ 12,523,146**
Net Change in Fund Balance	**$ 163,342**	**$ (770,625)**	**$ 37,745**	**$ 10,308**	**$ (559,230)**
Fund Balance - January 1	**3,233,247**	**711,154**	**2,622,491**	**159,364**	**6,726,256**
Increase (decrease) in inventories	**-**	**12,494**	**-**	**-**	**12,494**
Fund Balance - December 31	**$ 3,396,589**	**$ (46,977)**	**$ 2,660,236**	**$ 169,672**	**$ 6,179,520**

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, 2013

Net change in fund balances - total governmental funds (Exhibit 5)		**$ (559,230)**
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 inflows of resources - December 31	$ 1,791,694	
Deferred inflows of resources - January 1	(3,118,783)	(1,327,089)
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. The difference is the net book value of the assets disposed of.		
Expenditures for general capital assets and infrastructure	$ 3,787,088	
Net book value of assets disposed of	(59,594)	
Current year depreciation	(1,296,604)	2,430,890
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Principal repayments		
General obligation bonds	$ 100,000	
Capital leases	40,644	140,644
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 funds.		
Change in accrued interest payable	$ 2,150	
Change in deferred charges	(41,901)	
Amortization of bond premiums	2,452	
Change in compensated absences	(56,273)	
Change in inventories	12,494	
Change in net OPEB liability	(313,181)	(394,259)
Change in Net Position of Governmental Activities (Exhibit 2)		**$ 290,956**

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

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PROPRIETARY FUNDS

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TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT 7

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2013

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
Assets			
Current assets			
Cash and pooled investments	$ 8,093	$ 325,510	$ 333,603
Cash with escrow agent	770,900	-	770,900
Investments	-	35,000	35,000
Total current assets	**$ 778,993**	**$ 360,510**	**$ 1,139,503**
Noncurrent assets			
Advance to other funds	$ -	$ 84,078	$ 84,078
Capital assets			
Nondepreciable	-	16,175	16,175
Depreciable - net	651,706	2,629,881	3,281,587
Total noncurrent assets	**$ 651,706**	**$ 2,730,134**	**$ 3,381,840**
Total Assets	**$ 1,430,699**	**$ 3,090,644**	**$ 4,521,343**
Deferred Outflows of Resources			
Deferred charges on bond refunding	**$ -**	**$ 81,537**	**$ 81,537**

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

TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT 7
(Continued)

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2013

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
Liabilities			
Current liabilities			
Accounts payable	$ -	$ 528	$ 528
Accrued interest payable	7,847	29,660	37,507
General obligation bonds payable - current	45,000	-	45,000
Revenue bonds payable - current	-	160,000	160,000
Loans payable - current	-	14,814	14,814
Total current liabilities	**$ 52,847**	**$ 205,002**	**$ 257,849**
Noncurrent liabilities			
Advance from other funds	$ 84,078	$ -	$ 84,078
Net OPEB liability	703	401,610	402,313
General obligation bonds payable - long-term	1,576,698	-	1,576,698
Revenue bonds payable - long-term	-	3,078,079	3,078,079
Total noncurrent liabilities	**$ 1,661,479**	**$ 3,479,689**	**$ 5,141,168**
Total Liabilities	**$ 1,714,326**	**$ 3,684,691**	**$ 5,399,017**
Net Position			
Net investment in capital assets	$ (199,092)	$ (510,486)	$ (709,578)
Unrestricted	(84,535)	(2,024)	(86,559)
Total Net Position	**$ (283,627)**	**$ (512,510)**	**$ (796,137)**

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

TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT 8

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	Traverse Care Center	Totals
Operating Revenues			
Miscellaneous	**$ -**	**$ 15,500**	**$ 15,500**
Operating Expenses			
Employee benefits and payroll taxes	$ -	$ 134,578	$ 134,578
Professional services	-	4,734	4,734
Insurance	-	378	378
Depreciation	46,435	182,432	228,867
Total Operating Expenses	**$ 46,435**	**$ 322,122**	**$ 368,557**
Operating Income (Loss)	**$ (46,435)**	**$ (306,622)**	**$ (353,057)**
Nonoperating Revenues (Expenses)			
Interest income	$ -	$ 3,399	$ 3,399
Lease revenue	94,606	295,903	390,509
Bond issuance expense	(41,514)	-	(41,514)
Interest expense	(67,786)	(132,417)	(200,203)
Total Nonoperating Revenues (Expenses)	**$ (14,694)**	**$ 166,885**	**$ 152,191**
Change in net position	**$ (61,129)**	**$ (139,737)**	**$ (200,866)**
Net Position - January 1	**(222,498)**	**(372,773)**	**(595,271)**
Net Position - December 31	**$ (283,627)**	**$ (512,510)**	**$ (796,137)**

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

TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT 9

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013
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	$ -	$ 15,500	$ 15,500
Payments to suppliers and employees	-	(100,319)	(100,319)
Nonoperating revenue received	90,186	332,487	422,673
Net cash provided by (used in) operating activities	**$ 90,186**	**$ 247,668**	**$ 337,854**
Cash Flows from Capital and Related Financing Activities			
Proceeds from bond sale	$ 774,496	$ -	$ 774,496
Principal paid on long-term debt	(45,000)	(3,383,148)	(3,428,148)
Bond issuance cost	(33,664)	-	(33,664)
Interest paid on long-term debt	(36,125)	(183,738)	(219,863)
Net cash provided by (used in) capital and related financing activities	**$ 659,707**	**$ (3,566,886)**	**$ (2,907,179)**
Cash Flows from Investing Activities			
Interest received	**$ -**	**$ 3,399**	**$ 3,399**
Net Increase (Decrease) in Cash and Cash Equivalents	**$ 749,893**	**$ (3,315,819)**	**$ (2,565,926)**
Cash and Cash Equivalents at January 1	**29,100**	**3,641,329**	**3,670,429**
Cash and Cash Equivalents at December 31	**$ 778,993**	**$ 325,510**	**$ 1,104,503**

TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT 9
(Continued)

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013
Increase (Decrease) in Cash and Cash Equivalents

	Business-Type Activities - Enterprise Funds		
	Prairieview Place	**Traverse Care Center**	**Totals**
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities			
Operating income (loss)	**$ (46,435)**	**$ (306,622)**	**$ (353,057)**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	$ 46,435	$ 182,432	$ 228,867
Nonoperating revenue received	90,186	332,487	422,673
(Increase) decrease in accounts receivable	-	177	177
Increase (decrease) in accounts payable	-	(836)	(836)
Increase (decrease) in net OPEB liability	-	40,030	40,030
Total adjustments	**$ 136,621**	**$ 554,290**	**$ 690,911**
Net Cash Provided by (Used in) Operating Activities	**$ 90,186**	**$ 247,668**	**$ 337,854**

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FIDUCIARY FUNDS

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TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2013

Assets	
Cash and pooled investments	**$ 93,739**
Liabilities	
Due to other governments	**$ 93,739**

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

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NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013

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, 2013. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

Changes in Accounting Principles

During 2013, the County adopted new accounting guidance by implementing the provisions of GASB Statements 61 and 65. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, modifies and clarifies the requirements for inclusion of component units and their presentation in the primary government's financial statements. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items previously reported as assets and liabilities. See Note 1.D.9. in the notes to the financial statements for additional information regarding the County's deferred outflows/inflows of resources.

Restatements of December 31, 2012, net position or fund balance were not required as a result of adopting these changes in accounting principles.

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.

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

The County participates in joint ventures described in Note 6.B. The County also participates in jointly-governed organizations and a related organization described in Note 6.C. and Note 6.D., respectively.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net position and the statement of activities) display information about Traverse County. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenue, 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 position, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, that recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net position is reported in three parts: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position. 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.

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

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 accounted for in another fund.

- The Road and Bridge Special Revenue Fund accounts for restricted revenues from the federal and state government, as well as assigned property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

- The Social Services Special Revenue Fund accounts for restricted revenues from the federal, state, and other oversight agencies, as well as assigned property tax revenues used for economic assistance and community social services programs.

- The Jail/LEC Debt Service Fund is used to account for the accumulation of restricted resources for, and the payment of principal, interest, and related costs of general obligation bonds.

The County reports the following major enterprise funds:

- The Prairieview Place Fund is used to account for the lease revenues and debt payments of the County's congregate housing. Effective December 1, 2010, the County leased its property and operations of Prairieview Place to LSS of Traverse, LLC. Note 6.E. contains additional information related to this lease.

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

- The Traverse Care Center Fund is used to account for the lease revenues and debt payments of the County's nursing home. Effective December 1, 2010, the County leased its property and operations of Traverse Care Center to LSS of Traverse, LLC. Note 6.E. contains additional information related to this lease.

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund, 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.

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 taxes are recognized as revenues in the year for which they are levied provided they are also available. Shared revenues are generally recognized in the period the appropriation goes into effect and the revenues are available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and are available. 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.

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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.

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

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position 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 be deposited or effectively withdrawn from cash at any time without prior notice or penalty.

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2013, 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 2013 were $25,382.

Traverse County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is 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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

2. Deposits and Investments (Continued)

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). The investment in the pool is measured at the net asset value per share provided by the pool.

3. Receivables and Payables

Activities between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (the current portion of interfund loans) or "advances to/from other funds" (the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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

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

4. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories 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.

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity (Continued)

5. Restricted Assets

Certain funds of the County are classified as restricted assets on the statement of net position 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, their use is limited by applicable laws and regulations.

6. Capital Assets

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	25 - 40
Land improvements	20 - 35
Infrastructure	15 - 70
Machinery, furniture, and equipment	3 - 15

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity (Continued)

7. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual vacation 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. A liability is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are accrued when incurred in the government-wide financial statements. The government-wide statement of net position reports both current and noncurrent portions of compensated absences.

8. Long-Term Obligations

In the government-wide financial statements and the 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 position. Bond premiums and discounts 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.

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 other financing sources. 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.

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity (Continued)

9. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. The County has only one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the Traverse Care Center Fund in the business-type activities statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

10. Unearned Revenue

Governmental funds and government-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned.

11. Classification of Net Position

Net position in the government-wide and proprietary fund financial statements is classified in the following categories:

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

11. Classification of Net Position (Continued)

- Net investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

- Restricted net position - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

- Unrestricted net position - the amount of net position that does not meet the definition of restricted or net investment in capital assets.

12. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which Traverse County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

- Nonspendable - amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

- Restricted - amounts in which constraints have been placed on the use of resources either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

- Committed - amounts that can be used only for the specific purposes imposed by formal action (resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

12. Classification of Fund Balances (Continued)

- Assigned - amounts the County intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Auditor/Treasurer who has been delegated that authority by County Board resolution.

- Unassigned - the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

Traverse County applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

13. Minimum Fund Balance

Traverse County has adopted a minimum fund balance policy for the General Fund and special revenue funds. The General Fund and special revenue funds are heavily reliant on property tax revenues to fund current operations. However, current property tax revenues are not available for distribution until June. Therefore, the County Board has determined it needs to maintain a minimum unrestricted fund balance (committed, assigned, and unassigned) of approximately 35 to 50 percent of fund operating revenues or no less than five months of operating expenditures. At December 31, 2013, unrestricted fund balance for the General Fund was at or above the minimum fund balance level.

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity (Continued)

14. 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 certain 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.

2. Stewardship, Compliance, and Accountability

Deficit Fund Equity

The following major funds had deficit net position or fund balance as of December 31, 2013:

Road and Bridge Special Revenue Fund	$	46,977
Prairieview Place Enterprise Fund		283,627
Traverse Care Center Enterprise Fund		512,510

The fund balance deficit will be eliminated by future receipt of intergovernmental shared revenues. The net position deficit will be eliminated by future lease revenues and repayment of long-term debt.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Reconciliation of the County's total cash and investments to the basic financial statements follows:

Government-wide statement of net position		
Governmental activities		
Cash and pooled investments	$	6,541,046
Investments		66,694

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Business-type activities		
Cash and pooled investments		1,104,503
Investments		35,000
Statement of fiduciary net position		
Cash and pooled investments		93,739
Total Cash and Investments	$	7,840,982

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County's policy is to minimize deposit custodial credit risk by obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law. As of December 31, 2013, the County's deposits were not exposed to custodial credit risk.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

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

(2) mutual funds through shares of registered investment companies provided the mutual fund receives ratings depending on its investments;

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

(4) bankers’ acceptances of United States banks;

(5) commercial paper issued by United States corporations or their Canadian subsidiaries rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

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

Interest Rate Risk

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

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's policy is to minimize investment custodial credit risk by permitting brokers that obtained investments for the County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. As of December 31, 2013, the County did not have any investments subject to custodial credit risk.

Concentration of Credit Risk

Traverse County will minimize concentration of credit risk, which is the risk of loss due to the magnitude of the County's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. This will be based on the applicable opinion units.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County's deposit and investment balances at December 31, 2013, and information relating to potential investment risks:

Investment Type	Credit Risk: Credit Rating	Credit Risk: Rating Agency	Concentration Risk: Over 5 Percent of Portfolio	Interest Rate Risk: Maturity Date	Carrying (Fair) Value
U.S. government agency securities					
Federal Home Loan Bank	AA+	S&P		12/28/2022	$ 97,310
Federal Home Loan Bank	AA+	S&P		05/23/2023	93,351
Total Federal Home Loan Bank			>5%		$ 190,661
Negotiable certificates of deposit with brokers					
Fifth Third Bank	N/A	N/A	>5%	06/05/2014	$ 115,667
Union Bank	N/A	N/A	>5%	02/28/2017	97,470
HSBC Bank	N/A	N/A	<5%	05/01/2017	21,094
GE Capital	N/A	N/A	>5%	06/08/2018	202,332
Total negotiable certificates of deposit with brokers					$ 436,563
Investment pools/mutual funds					
Federated U.S. Government Fund	N/A	N/A	<5%	N/A	$ 37,567
Money Market	N/A	N/A	>5%	N/A	101,048
MAGIC Fund	N/A	N/A	<5%	N/A	6,561
Total investment pools/mutual funds					$ 145,176
Total investments					$ 772,400
Checking					5,753,885
Savings					620,159
Certificates of deposit					693,038
Change funds					1,500
Total Cash and Investments					$ 7,840,982

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

3. Detailed Notes on All Funds

   A. Assets (Continued)

      2. Receivables

Receivables as of December 31, 2013, for the County's governmental activities and business-type activities are as follows:

	Governmental Activities	Business-Type Activities
Taxes	$ 67,041	$ -
Special assessments	6,152	-
Accounts receivable	14,116	-
Due from other governments	2,002,057	-
Total Receivables	$ 2,089,366	$ -

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

      3. Capital Assets

Capital asset activity for the year ended December 31, 2013, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 178,352	$ -	$ -	$ 178,352
Right-of-way	947,467	15,081	-	962,548
Construction in progress	-	66,701	-	66,701
Total capital assets not depreciated	$ 1,125,819	$ 81,782	$ -	$ 1,207,601
Capital assets depreciated				
Buildings	$ 5,267,625	$ -	$ -	$ 5,267,625
Land improvements	137,585	5,085	-	142,670
Machinery, furniture, and equipment	4,757,332	375,917	241,977	4,891,272
Infrastructure	39,962,978	3,324,304	-	43,287,282
Total capital assets depreciated	$ 50,125,520	$ 3,705,306	$ 241,977	$ 53,588,849

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Governmental Activities (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	$ 1,983,305	$ 118,178	$ -	$ 2,101,483
Land improvements	47,797	8,650	-	56,447
Machinery, furniture, and equipment	3,163,766	304,029	182,383	3,285,412
Infrastructure	10,881,214	865,747	-	11,746,961
Total accumulated depreciation	$ 16,076,082	$ 1,296,604	$ 182,383	$ 17,190,303
Total capital assets depreciated, net	$ 34,049,438	$ 2,408,702	$ 59,594	$ 36,398,546
Governmental Activities Capital Assets, Net	$ 35,175,257	$ 2,490,484	$ 59,594	$ 37,606,147

Construction in progress consists of a new E-911 phone system.

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	510,477	-	-	510,477
Total capital assets depreciated	$ 6,952,463	$ -	$ -	$ 6,952,463
Less: accumulated depreciation for				
Buildings	$ 2,919,817	$ 217,770	$ -	$ 3,137,587
Land improvements	41,829	855	-	42,684
Machinery, furniture, and equipment	480,363	10,242	-	490,605
Total accumulated depreciation	$ 3,442,009	$ 228,867	$ -	$ 3,670,876
Total capital assets depreciated, net	$ 3,510,454	$ (228,867)	$ -	$ 3,281,587
Business-Type Activities Capital Assets, Net	$ 3,526,629	$ (228,867)	$ -	$ 3,297,762

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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

Governmental Activities		
General government	$	116,748
Public safety		61,670
Highways and streets, including depreciation of infrastructure assets		1,105,217
Human services		8,595
Sanitation		3,426
Culture and recreation		948
Total Depreciation Expense - Governmental Activities	$	1,296,604
Business-Type Activities		
Traverse Care Center	$	182,432
Prairieview Place		46,435
Total Depreciation Expense - Business-Type Activities	$	228,867

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2013, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Road and Bridge Special Revenue Fund	$ 3,755

The outstanding balance between funds results from the time lag between the dates the interfund goods and services are provided and reimbursable expenditures occurred, when transactions are recorded in the accounting system, and when the funds are repaid. The balance is expected to be liquidated in the subsequent year.

3. Detailed Notes on All Funds

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

2. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
Traverse Care Center Enterprise Fund	Prairieview Place Enterprise Fund	$ 84,078

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

C. Liabilities

1. Payables

Payables at December 31, 2013, were as follows:

	Governmental Activities	Business-Type Activities
Accounts payable	$ 294,734	$ 528
Salaries payable	2,284	-
Contracts payable	271,182	-
Due to other governments	89,755	-
Accrued interest payable	33,934	37,507
Total Payables	$ 691,889	$ 38,035

2. Construction Commitments

The County has active construction projects as of December 31, 2013. The projects include the following:

	Spent-to-Date	Remaining Commitment
General Fund		
E-911 phone system	$ 66,701	$ 60,433

Construction commitments for highway projects are state-funded and, therefore, not obligations of the County at December 31, 2013.

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. 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, 2013:

Leases	Maturity	Installment	Payment Amount	Original	Balance
Governmental Activities					
Social Services building	2014	Semi-Annual	$ 12,900	$ 300,000	$ 22,319
2010 phone system	2015	Monthly	1,285	69,101	22,348
Total Governmental Activities Capital Leases					$ 44,667

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2013, were as follows:

Year Ending December 31	Governmental Activities
2014	$ 36,568
2015	8,998
Total minimum lease payments	$ 45,566
Less: amount representing interest	(899)
Net Present Value of Minimum Lease Payments	$ 44,667

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Long-Term Debt

Debt Issued

On April 24, 2013, Traverse County issued General Obligation Governmental Housing Refunding Bonds, Series 2013A, in the amount of $785,000 with interest rates of 1.05 percent to 2.50 percent to advance refund the General Obligation Housing Refunding Bonds, Series 2005A, with an interest rate of 5.00 percent. The net present value of the benefit is $58,479.

Governmental Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2013
General obligation bonds					
2006A G.O. Jail Bonds	2027	$50,000 - $185,000	4.00 - 4.25	$ 2,515,000	$ 1,990,000
Add: unamortized premium					31,673
Total General Obligation Bonds, Net					$ 2,021,673

Business-Type Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2013
USDA Loan	2014	$44,444	-	$ 400,000	$ 14,814
2005A G.O. Governmental Housing Refunding Bonds	2026	$30,000 - $85,000	5.00	$ 1,190,000	$ 835,000
2013A G.O. Governmental Housing Refunding Bonds	2027	$65,000 - $80,000	1.05 - 2.50	785,000	785,000
Add: unamortized premium					5,196
Less: unamortized discount					(3,498)
Total G.O. Bonds, Net					$ 1,621,698

3. Detailed Notes on All Funds

C. Liabilities

4. Long-Term Debt

Business-Type Activities (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2013
2012A G.O. Nursing Home Revenue Refunding Bonds	2030	$160,000 - $225,000	0.00 - 2.80	$ 3,350,000	$ 3,190,000
Add: unamortized premium					48,079
Total Revenue Refunding Bonds, Net					$ 3,238,079

5. Debt Service Requirements

Debt service requirements at December 31, 2013, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds Principal	General Obligation Bonds Interest
2014	$ 105,000	$ 79,250
2015	110,000	74,950
2016	115,000	70,450
2017	120,000	65,750
2018	125,000	60,850
2019 - 2023	715,000	222,850
2024 - 2027	700,000	60,988
Total	$ 1,990,000	$ 635,088

3. Detailed Notes on All Funds

C. Liabilities

5. Debt Service Requirements (Continued)

Business-Type Activities

Year Ending December 31	General Obligation Bonds Principal	General Obligation Bonds Interest	Revenue Bonds Principal	Revenue Bonds Interest
2014	$ 45,000	$ 56,660	$ 160,000	$ 69,585
2015	50,000	53,625	155,000	66,435
2016	740,000	52,375	165,000	63,235
2017	65,000	13,784	170,000	59,885
2018	70,000	13,075	170,000	56,485
2019 - 2023	350,000	51,340	900,000	229,530
2024 - 2028	300,000	15,036	1,025,000	125,828
2029 - 2030	-	-	445,000	12,420
Total	$ 1,620,000	$ 255,895	$ 3,190,000	$ 683,403

Year Ending December 31	USDA Loan Principal
2014	$ 14,814

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2013, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
G.O. jail bonds payable	$ 2,090,000	$ -	$ 100,000	$ 1,990,000	$ 105,000
Unamortized bond premium	34,125	-	2,452	31,673	-
Capital leases	85,311	-	40,644	44,667	35,800
Compensated absences	265,947	297,194	249,795	313,346	195,671
Net OPEB liability	1,284,215	595,004	281,823	1,597,396	-
Governmental Activities Long-Term Liabilities	$ 3,759,598	$ 892,198	$ 674,714	$ 3,977,082	$ 336,471

3. Detailed Notes on All Funds

C. Liabilities

6. Changes in Long-Term Liabilities (Continued)

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
Bonds payable					
General obligation refunding bonds	$ 880,000	$ 785,000	$ 45,000	$ 1,620,000	$ 45,000
Revenue bonds	6,525,000	-	3,335,000	3,190,000	160,000
Premium on bonds	58,715	5,196	10,636	53,275	-
Discount on bonds	(33,550)	-	(30,052)	(3,498)	-
Total bonds payable	$ 7,430,165	$ 790,196	$ 3,360,584	$ 4,859,777	$ 205,000
Loans payable	62,963	-	48,149	14,814	14,814
Net OPEB liability	362,295	146,472	106,454	402,313	-
Business-Type Activities Long-Term Liabilities	$ 7,855,423	$ 936,668	$ 3,515,187	$ 5,276,904	$ 219,814

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Plan Description

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

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Plan Description (Continued)

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

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

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute. Defined retirement benefits are based on a member's 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 General Employees Retirement Fund Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. 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 remaining 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

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Funding Policy (Continued)

members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2013:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	14.40
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2013, 2012, and 2011, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2013	2012	2011
General Employees Retirement Fund	$ 143,994	$ 136,217	$ 145,483
Public Employees Police and Fire Fund	37,790	38,300	38,455
Public Employees Correctional Fund	32,305	30,610	29,547

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

B. Defined Contribution Plan

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

4. Pension Plans and Other Postemployment Benefits

B. Defined Contribution Plan (Continued)

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

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2013, were:

	Employee	Employer
Contribution amount	$ 4,103	$ 4,103
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description

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

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Traverse County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2013, there were 100 participants in the plan, including 51 retirees.

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation

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

The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the plan.

ARC	$	769,097
Interest on net OPEB obligation		74,093
Adjustment to ARC		(101,714)
Annual OPEB cost (expense)	$	741,476
Contributions made during the year		(388,277)
Increase in net OPEB obligation	$	353,199
Net OPEB Obligation - Beginning of Year		1,646,510
Net OPEB Obligation - End of Year	$	1,999,709

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended December 31, 2013, and the preceding two years was as follows:

Fiscal Year-End	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2011	$ 754,077	$ 414,211	54.9%	$ 1,305,747
December 31, 2012	747,981	407,218	54.4	1,646,510
December 31, 2013	741,476	388,277	52.4	1,999,709

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Funded Status and Funding Progress

Governmental Activities

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

Business-Type Activities

As of January 1, 2011, the most recent actuarial valuation date, the plan had no assets to fund the plan. The Care Center's UAAL was $2,441,583. The annual payroll for active employees covered by the plan in the actuarial valuation was zero, as most of the Care Center's employees became employees of LSS effective with the lease of the facility on December 31, 2010.

Actuarial Methods and Assumptions

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

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

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

In the January 1, 2011, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of investment expenses), which is Traverse County's implicit rate of return on the General Fund. The annual health care cost trend is 8.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 8 years. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2013, was 25 years.

5. Risk Management

Traverse 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. To manage these risks, the County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For group employee health benefits, the County has entered into a joint powers agreement, the Lakes Country Service Cooperative. For all 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.

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 $470,000 per claim in 2013 and $480,000 in 2014. 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.

The Lakes Country Service Cooperative (Service Cooperative) is a joint powers entity which sponsors a plan to provide group employee health benefits to its participating members. All members pool premiums and losses; however, a particular member may receive increases or decreases depending on a good or bad year of claims experience. Premiums are determined annually by the Service Cooperative and are based partially on the experience of the County and partially on the experience of the group. The Service Cooperative solicits proposals from carriers and negotiates the contracts.

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

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

B. Joint Ventures

Stevens Traverse Grant Public Health Service

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

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

The primary functions of the Health Service are to prevent illness and to promote efficiency and economy in the delivery of community health services. Financing is provided by federal and state grants; appropriations from Stevens, Traverse, and Grant Counties; and charges for services. Stevens County, as an agent, reports the cash transactions of Stevens Traverse Grant Public Health Service in an agency fund on its annual financial statements. Traverse County's contribution for 2013 was $63,784.

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

Stevens Traverse Grant Public Health Service
10 East Hwy 28
Morris, Minnesota 56267

Horizon Community Health Board

Grant, Pope, Stevens, and Traverse Counties entered into a joint powers agreement creating and operating the Mid-State Community Health Services, pursuant to Minn. Stat. § 471.59 (following a budget approved by the five-county Board). During 1994, Stevens Traverse Grant Public Health Service began receiving and administering the grant money for Stevens, Traverse, and Grant Counties. Mid-State Community Health Services was renamed to Horizon Community Health Board when Douglas County was added as a member on January 1, 2011. The budget is now approved by the six-county Board.

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Horizon Community Health Board (Continued)

Control is vested in Horizon's Board, which consists of 11 members comprised of 8 County Commissioners and 3 community representatives. Each member of the Board is appointed by the County Commissioners of the county represented.

Financing is provided by state and federal grants and contributions from the member parties. Pope County, in an agent capacity, reports the cash transactions of Horizon as an agency fund on its financial statements. During 2013, Traverse County did not contribute funds to Horizon.

Complete financial statements for the Horizon Community Health Board can be obtained from:

Horizon Community Health Board
211 East Minnesota Avenue, Suite 100
Glenwood, Minnesota 56344

Rainbow Rider Transit Board

Douglas, Grant, Pope, Stevens, and Traverse Counties entered into a joint powers agreement to establish the West Central Multi-County Joint Powers Transit Board 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 Transit Board to Rainbow Rider Transit Board. The purpose of the Board is to provide coordinated service delivery and a funding source for public transportation. Grant County terminated its membership in Rainbow Rider on May 31, 1999. Grant County rejoined and Todd County became a member county effective January 1, 2011 and 2012, respectively.

The Board consists of two members appointed by each member county from its County Board for terms of one year each. Rainbow Rider is a joint venture with no county having control over the Board. Each county has an ongoing responsibility to provide funding for the operating costs of the Board allocated in accordance with the actual expenses incurred by representatives of the respective counties on the Board.

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Rainbow Rider Transit Board (Continued)

The joint powers agreement remains in force until any single county notifies the other parties of its intentions to withdraw, at least 90 days before the termination takes effect. The remaining counties may agree to continue the agreement with the remaining counties as members.

Complete financial information can be obtained from:

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

West Central Area Agency on Aging

The West Central Area Agency on Aging was established June 2, 1992, by a joint powers agreement among Becker, Clay, Douglas, Grant, Otter Tail, Pope, Stevens, Traverse, and Wilkin Counties. In 2005, the Area Agency on Aging became part of a larger planning and service area covering 21 counties. This is a partnership between the Northwest Regional Development Commission, the 5-county service area of Region 2, and the West Central Area Agency on Aging. The combined area on aging, known as the Land of the Dancing Sky Area on Aging, was established to administer all aspects of the Older Americans Act by providing programs to meet the needs of the elderly in the 21-county area. Each county may be assessed a proportional share of the 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.

The Land of the Dancing Sky umbrella board meets quarterly to discuss and approve major items such as the area plan and dollar allocations, while the advisory councils and joint powers boards continue to meet monthly to make decisions affecting their local counties.

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 represented.

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

West Central Area Agency on Aging (Continued)

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.

Complete financial information can be obtained from:

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

Prime West Health System

In December 1998, Traverse County became a member of the Prime West Central County-Based Purchasing Initiative Joint Powers Board (since renamed Prime West Health System) with Big Stone, Douglas, Grant, McLeod, Meeker, Pipestone, Pope, Renville, and Stevens Counties under the authority of Minn. Stat. § 471.59. Beltrami, Clearwater, and Hubbard Counties were later added to the Prime West Health System. Traverse County, in partnership with these twelve counties, is organized to directly purchase health care services for county residents who are eligible for Medical Assistance and General Assistance Medical Care as authorized by Minn. Stat. § 256B.692. County-based purchasing is the local control alternative favored for improved coordination of services to prepaid Medical Assistance programs in complying with Minnesota Department of Health requirements as set forth in Minn. Stat. chs. 62D and 62N.

Control of Prime West Health System is vested in a Joint Powers Board, composed of two Commissioners from each member county (one active and one alternate). Each member of the Joint Powers Board is appointed by the County Commissioners of the county represented.

In the event of termination of the joint powers agreement, all assets 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.

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Prime West Health System (Continued)

Douglas County acts as fiscal agent for the Prime West Health System and reports the cash transactions as an investment trust fund on its financial statements. Financing is provided by Medical Assistance and General Assistance Medical Care payments from the Minnesota Department of Human Services.

Complete financial information can be obtained from its administrative office at Prime West Health System, 2209 Jefferson Street, Suite 101, Alexandria, Minnesota 56308.

Central Minnesota Emergency Services Board

The Central Minnesota Regional Radio Board was established in 2007, under the authority conferred upon the member parties by Minn. Stat. §§ 471.59 and 403.39. As of June 1, 2011, the Central Minnesota Regional Radio Board changed its name to the Central Minnesota Emergency Services Board. Members include the City of St. Cloud and the Counties of Benton, Big Stone, Douglas, Grant, Kandiyohi, Meeker, Mille Lacs, Morrison, Otter Tail, Pope, Sherburne, Stearns, Stevens, Swift, Todd, Traverse, Wadena, Wilkin, and Wright.

The purpose of the Central Minnesota Emergency Services Board is to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER) owned and operated by the State of Minnesota.

The Central Minnesota Emergency Services Board is composed of one Commissioner of each county appointed by their respective County Board and one City Council member from each city appointed by their respective City Council, as provided in the Central Minnesota Emergency Services Board's by-laws.

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

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Central Minnesota Emergency Services Board (Continued)

The Central Minnesota Emergency Services Board has no long-term debt. Financing is provided by the appropriations from member parties and by state and federal grants. During 2013, Traverse County did not contribute to the Joint Powers Board.

Complete financial information can be obtained from:

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

Supporting Hands Nurse Family Partnership Board

The Supporting Hands Nurse Family Partnership Board was established pursuant to Minn. Stat. §§ 145A.17 and 471.59 and a joint powers agreement, effective May 31, 2007. The Board is comprised of one representative from each county to the agreement. The counties in the agreement are Big Stone, Chippewa, Douglas, Grant, Lac qui Parle, Lincoln, Lyon, McLeod, Meeker, Murray, Pipestone, Pope, Redwood, Renville, Stevens, Swift, Traverse, and Yellow Medicine. The purpose of this agreement is to organize, govern, plan, and administer a multi-county based Nurse Family Partnership Program specifically within the jurisdictional boundaries of the counties involved.

The governing board is composed of one Board member from each of the participating counties. Each participating county will contribute to the budget of the Supporting Hands Nurse Family Partnership. In 2013, Traverse County did not make a contribution to the partnership.

McLeod County acts as fiscal agent for Supporting Hands Nurse Family Partnership. A complete financial report of the Supporting Hands Nurse Family Partnership can be obtained from McLeod County at Supporting Hands Nurse Family Partnership, McLeod County, 830 - 11th Street East, Glencoe, Minnesota 55336.

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Land of the Dancing Sky Area Agency on Aging

The Land of the Dancing Sky Area Agency on Aging provides services to a 21-county service area. This is a partnership between the Northwest Regional Development Commission, the 5-county service area of Region 2, and the West Central Area Agency on Aging. This combined area on aging was established to administer all aspects of the Older Americans Act by providing programs to meet the needs of the elderly in the 21-county area.

The Land of the Dancing Sky umbrella board meets quarterly to discuss and approve major items such as the area plan and dollar allocations, while the advisory councils and joint powers boards of the two areas on aging continue to meet monthly to make decisions affecting their local counties.

Region 4 South Adult Mental Health Consortium

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

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

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

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Region 4 South Adult Mental Health Consortium (Continued)

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

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

Rural Minnesota Concentrated Employment Programs, Inc. (WIA - Rural Minnesota Workforce Service Area 2)

Rural Minnesota Concentrated Employment Programs, Inc., was established to create job training and employment opportunities for economically disadvantaged, underemployed and unemployed persons, and youthful persons in both the private and the public sector.

Traverse County provided $39,396 to this organization in 2013.

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 Grant Public Health Service, Wheaton Public Schools, Browns Valley Public Schools, Traverse County Court Services, the Life Center, West Central Minnesota Community Action, and Prairie Community Services.

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

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 make a contribution to Traverse County Connections in 2013.

C. 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 WACCO 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 is vested in a Board of Directors composed of a representative appointed by each member city and county. During 2013, the County contributed $827 to WACCO.

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

District IV Transportation Planning

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

Minnesota River Board

The Minnesota River Board (formerly the Minnesota River Basin Joint Powers Board) was established July 12, 1995, by an agreement between Traverse County and 37 other counties. According to the latest information available, 38 counties are members under this agreement. The agreement was made to promote orderly water quality improvement and management of the Minnesota River Watershed. Each county is responsible for its proportionate share of the administrative budget and for its share of benefits from any special project.

In the event of termination of the agreement, all property, real and personal, held by the Board shall be distributed by resolution of the policy committee to best accomplish the continuing purpose of the project.

Control is vested in an executive committee of one executive director and four officers elected from the membership of the Minnesota River Powers Board, consisting of one representative from one of the member County Board of Commissioners included in this agreement. During the year, Traverse County did not make any payments to the Project.

Complete financial statements for the Minnesota River Board can be obtained from its administrative office at Minnesota River Board, Administrative Building No. 14, 600 East 4th Street, Chaska, Minnesota 55318.

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Region Four - West Central Minnesota Homeland Security Emergency Management Organization

The Region Four - West Central Minnesota Security Emergency Management Organization (WCRHSEM) was established to provide for regional coordination of planning, training, purchase of equipment, and allocating emergency services and staff in order to better respond to emergencies and natural or other disasters within the WCRHSEM region. Control is vested in the Board, which is composed of representatives appointed by each Board of County Commissioners. Traverse County's responsibility does not extend beyond making this appointment.

Minnesota Criminal Justice Data Communications Network

The Minnesota Criminal Justice Data Communications Network Joint Powers Agreement exists to create access for the County Sheriff and County Attorney to systems and tools available from the State of Minnesota, Department of Public Safety, and the Bureau of Criminal Apprehension to carry out criminal justice. During the year, the County made no payments to the joint powers.

Minnesota Red River Basin of the North Joint Powers Agreement

The Minnesota Red River Basin of the North Joint Powers Board was established November 29, 1999, by an agreement between Traverse County and 17 other counties. The agreement was made to serve as a focal point for land and water concerns for those counties surrounding the Minnesota Red River Basin. Each county is responsible for its proportionate share of the administrative budget.

Control is vested in a Joint Powers Board comprised of one Commissioner from each member county. Each member of the Board is appointed by the County Commissioners of the county represented.

In the event of termination of the agreement, any unexpended funds and surplus property shall be disposed of equally among the member counties. During 2013, the County did not contribute any funding to the Joint Powers Board.

Complete financial statements can be obtained from the offices of the International Coalition.

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Minnesota Rural Counties Caucus

The Minnesota Rural Counties Caucus was established in 1997 and includes Aitkin, Beltrami, Clay, Clearwater, Cook, Douglas, Grant, Itasca, Kittson, Koochiching, Lake of the Woods, Mahnomen, Marshall, McLeod, Mille Lacs, Norman, Otter Tail, Pennington, Polk, Pope, Red Lake, Roseau, Stevens, Todd and Traverse Counties. Control of the Caucus is vested in the Minnesota Rural Counties Caucus Executive Committee, which is composed of ten directors, each with an alternate, who are appointed annually by each respective County Board. The County's responsibility does not extend beyond making this appointment.

Sentence to Serve

Traverse County, in conjunction with other local governments, participates in the State of Minnesota's Sentence to Serve (STS) program. STS is a project of the State Department of Administration's Strive Toward Excellence in Performance (STEP) program. STEP's goal is a statewide effort to make positive improvements in public services. It gives the courts an alternative to jail or fines for the nonviolent offenders who can work on a variety of community or state projects. Private funding, funds from various foundations and initiative funds, as well as the Minnesota Department of Corrections and Natural Resources, provide the funds needed to operate the STS program. Traverse County has no operational or financial control over the STS program and does not budget for this program.

Southwest Minnesota Immunization Information Connection

The Southwest Minnesota Immunization Information Connection (SW-MIIC) Joint Powers Board promotes an implementation and maintenance of a regional immunization information system to ensure age-appropriate immunizations through complete and accurate records. The County did not contribute to the SW-MIIC during 2013.

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

West Central S.W.A.T. Team

West Central S.W.A.T. Team is comprised of six County Sheriff's offices and seven Police Departments including Big Stone, Pope, Stevens, Swift, and Traverse Counties along with the Appleton, Benson, Glenwood, Morris, Starbuck, University of Minnesota Morris, and Wheaton Police Departments. The purpose of the team is to create a feasible economical way, by sharing the costs, to protect the citizens of the cities and counties involved. During the year, the County contributed $770 to the Team.

D. Related Organization

Traverse County Housing and Redevelopment Authority (HRA)

The Traverse County HRA has its own governing board appointed by the Traverse County Board of Commissioners. The County's accountability for the organization does not extend beyond making the appointments. In 2005, the HRA issued $1,190,000 of General Obligation Governmental Housing Refunding Bonds on behalf of Traverse County, which is responsible for making the payments. The balance of this debt outstanding is $831,502, net of discount. In 2013, the HRA issued $785,000 of General Obligation Government Housing Refunding Bonds, Series 2013A, for the full advance refunding of the General Obligation Governmental Housing Refunding Bonds, Series 2005A. Proceeds were deposited in an irrevocable trust with an escrow agent to provide partial interest payments on the General Obligation Government Housing Refunding Bonds, Series 2013A until January 1, 2016, at which time the refunded bonds will be paid off. The principal balance of both the original issue and the refunding issue will be shown on the statement of net position until the call date of the refunded bonds, at which time the 2005 bonds will be paid, and the liability for those bonds will be removed.

E. Lease of Property

On December 1, 2010, Traverse County entered into a lease with LSS of Traverse, LLC (LSS), whereby LSS is renting the property of Prairieview Place and operating it as a congregate housing facility. The lease was amended on November 5, 2013, to extend the lease for an additional three-year term beginning on December 1, 2013. The lease

6. Summary of Significant Contingencies and Other Items

E. Lease of Property (Continued)

calls for monthly payments to be made by LSS to Traverse County in amounts equal to the required debt service of Prairieview Place's debts, approximately $8,000 per month. Prairieview Place employees became employees of LSS on December 1, 2010.

On December 1, 2010, Traverse County entered into a lease with LSS of Traverse, LLC (LSS), whereby LSS is renting the property of the Care Center and operating it as a skilled nursing facility. The lease was amended on November 5, 2013, to extend the lease for an additional three-year term beginning on December 1, 2013. The lease calls for monthly payments to be made by LSS to Traverse County in amounts equal to the required debt service of the Care Center's debts, approximately $20,000 per month. Most Care Center employees became employees of LSS on December 1, 2010.

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REQUIRED SUPPLEMENTARY INFORMATION

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TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT A-1

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 2,449,408	$ 2,449,408	$ 2,492,659	$ 43,251
Special assessments	65,301	65,301	58,789	(6,512)
Licenses and permits	7,608	7,608	13,173	5,565
Intergovernmental	259,788	259,788	445,657	185,869
Charges for services	423,777	423,777	487,906	64,129
Gifts and contributions	-	-	4,000	4,000
Fines and forfeits	1,000	1,000	53	(947)
Investment earnings	45,000	45,000	20,592	(24,408)
Miscellaneous	333,500	333,500	215,794	(117,706)
Total Revenues	**$ 3,585,382**	**$ 3,585,382**	**$ 3,738,623**	**$ 153,241**
Expenditures				
Current				
General government				
Commissioners	$ 188,276	$ 188,276	$ 172,822	$ 15,454
Law library	7,000	7,000	6,018	982
County coordinator	50,323	50,323	49,521	802
County auditor/treasurer	199,896	199,896	202,256	(2,360)
License bureau	74,660	74,660	79,464	(4,804)
County assessor	110,688	110,688	129,701	(19,013)
Elections	4,585	4,585	4,585	-
Accounting and auditing	66,000	66,000	48,370	17,630
Data processing	123,500	123,500	105,520	17,980
Attorney	87,784	87,784	105,733	(17,949)
Recorder	140,641	140,641	149,743	(9,102)
Buildings and plant	162,068	162,068	116,763	45,305
Veterans service officer	57,839	57,839	70,274	(12,435)
Other general government	163,091	163,091	128,755	34,336
Total general government	**$ 1,436,351**	**$ 1,436,351**	**$ 1,369,525**	**$ 66,826**
Public safety				
Sheriff	$ 585,471	$ 585,471	$ 604,127	$ (18,656)
Boat and water	3,000	3,000	2,150	850
Coroner	7,000	7,000	6,160	840
Enhanced 911 system	266,580	266,580	264,895	1,685
Jail	303,780	303,780	305,932	(2,152)
Probation officer	301,746	301,746	277,286	24,460
Civil defense	57,727	57,727	70,555	(12,828)
Total public safety	**$ 1,525,304**	**$ 1,525,304**	**$ 1,531,105**	**$ (5,801)**

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

TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT A-1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Expenditures				
Current (Continued)				
Sanitation				
Solid waste	**$ 121,276**	**$ 121,276**	**$ 126,239**	**$ (4,963)**
Health				
Nursing service	$ 73,974	$ 73,974	$ 71,684	$ 2,290
Transportation	-	-	5,101	(5,101)
Total health	**$ 73,974**	**$ 73,974**	**$ 76,785**	**$ (2,811)**
Culture and recreation				
County fair	$ 10,000	$ 10,000	$ 10,000	$ -
Parks	11,191	11,191	8,986	2,205
Regional library	38,218	38,218	38,218	-
Total culture and recreation	**$ 59,409**	**$ 59,409**	**$ 57,204**	**$ 2,205**
Conservation of natural resources				
County extension	$ 135,508	$ 135,508	$ 146,817	$ (11,309)
Soil and water conservation	177,161	177,161	173,274	3,887
Weed control	47,869	47,869	46,249	1,620
Total conservation of natural resources	**$ 360,538**	**$ 360,538**	**$ 366,340**	**$ (5,802)**
Economic development				
Community development	**$ 8,530**	**$ 8,530**	**$ 5,575**	**$ 2,955**
Debt service				
Principal	$ -	$ -	$ 40,644	$ (40,644)
Interest	-	-	1,864	(1,864)
Total debt service	**$ -**	**$ -**	**$ 42,508**	**$ (42,508)**
Total Expenditures	**$ 3,585,382**	**$ 3,585,382**	**$ 3,575,281**	**$ 10,101**

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

TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT A-1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Net Change in Fund Balance	$ -	$ -	$ 163,342	$ 163,342
Fund Balance - January 1	3,233,247	3,233,247	3,233,247	-
Fund Balance - December 31	$ 3,233,247	$ 3,233,247	$ 3,396,589	$ 163,342

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

TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT A-2

BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 1,489,000	$ 1,489,000	$ 1,440,562	$ (48,438)
Intergovernmental	5,185,000	5,185,000	4,926,887	(258,113)
Charges for services	140,000	140,000	250,444	110,444
Miscellaneous	160,000	160,000	38,749	(121,251)
Total Revenues	**$ 6,974,000**	**$ 6,974,000**	**$ 6,656,642**	**$ (317,358)**
Expenditures				
Current				
Highways and streets				
Administration	$ -	$ -	$ 403,864	$ (403,864)
Authorized work	25,000	25,000	121	24,879
Engineering	-	-	193,353	(193,353)
Construction	4,400,000	4,400,000	3,643,760	756,240
Maintenance	2,898,000	2,898,000	2,165,479	732,521
Equipment maintenance and shops	327,500	327,500	741,639	(414,139)
Material and services for resale	-	-	49,966	(49,966)
Total highways and streets	**$ 7,650,500**	**$ 7,650,500**	**$ 7,198,182**	**$ 452,318**
Intergovernmental				
Highways and streets	**-**	**-**	**229,085**	**(229,085)**
Total Expenditures	**$ 7,650,500**	**$ 7,650,500**	**$ 7,427,267**	**$ 223,233**
Net Change in Fund Balance	**$ (676,500)**	**$ (676,500)**	**$ (770,625)**	**$ (94,125)**
Fund Balance - January 1	**711,154**	**711,154**	**711,154**	**-**
Increase (decrease) in inventories	**-**	**-**	**12,494**	**12,494**
Fund Balance - December 31	**$ 34,654**	**$ 34,654**	**$ (46,977)**	**$ (81,631)**

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

TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT A-3

BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 574,429	$ 574,429	$ 579,921	$ 5,492
Intergovernmental	655,133	655,133	673,888	18,755
Charges for services	12,508	12,508	28,865	16,357
Miscellaneous	39,362	39,362	91,735	52,373
Total Revenues	**$ 1,281,432**	**$ 1,281,432**	**$ 1,374,409**	**$ 92,977**
Expenditures				
Current				
Human services				
Income maintenance	$ 642,975	$ 642,975	$ 551,547	$ 91,428
Social services	738,457	738,457	785,117	(46,660)
Total Expenditures	**$ 1,381,432**	**$ 1,381,432**	**$ 1,336,664**	**$ 44,768**
Net Change in Fund Balance	**$ (100,000)**	**$ (100,000)**	**$ 37,745**	**$ 137,745**
Fund Balance - January 1	**2,622,491**	**2,622,491**	**2,622,491**	**-**
Fund Balance - December 31	**$ 2,522,491**	**$ 2,522,491**	**$ 2,660,236**	**$ 137,745**

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

TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT A-4

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2013

Governmental Activities

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

Business-Type Activities

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2009	$ -	$ 3,049,073	$ 3,049,073	0.0%	$ 1,278,309	239.0%
January 1, 2011	-	2,441,583	2,441,583	0.0	-	N/A

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2013

1. General Budget Policies

   The County Board adopts estimated revenue and expenditure budgets for the General Fund and all special revenue funds. The expenditure budget is approved at the fund level.

   The budgets may be amended or modified at any time by the County Board. Expenditures may not legally exceed budgeted appropriations. Comparisons of final budgeted revenues and expenditures to actual are presented in the required supplementary information for the General Fund and special revenue funds.

2. Budget Basis of Accounting

   Budgets are adopted on a basis consistent with generally accepted accounting principles.

3. Budget Amendments

   The County did not amend the budgets for the General Fund or any of the special revenue funds.

4. Excess of Expenditures Over Budget

   Expenditures did not exceed final budgets in any of the funds.

5. Other Postemployment Benefits - Funded Status

   Since the County has not irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets to pay the actuarial accrued liability for postemployment benefits is zero. Currently, two actuarial valuations are available. As the information becomes available, future reports will provide additional trend analysis to meet the three valuation funding status requirement.

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

6. Other Postemployment Benefits - Significant Plan Provisions and Actuarial Assumption Changes

2011

Plan Provisions

- Surviving spouses are no longer eligible for the postretirement medical subsidy after the participant deceases. The surviving spouse can remain on the medical plan, if they pay the full blended/group rate premium.

- A retiree previously valued with a post-65 implicit rate subsidy and direct subsidized medical benefit is now valued with a direct subsidized medical benefit only, as the retiree is now on a Medicare Senior Gold Supplement Plan.

- Traverse County Care Center and Prairieview Place employees are no longer included in the GASB 45 valuation for Traverse County except for eligible “grandfathered” retirees.

SUPPLEMENTARY INFORMATION

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TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT B-1

BUDGETARY COMPARISON SCHEDULE
JAIL/LEC DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with Final Budget
Revenues				
Taxes	**$ 195,668**	**$ 195,668**	**$ 194,242**	**$ (1,426)**
Expenditures				
Debt service				
Principal	$ 105,000	$ 105,000	$ 100,000	$ 5,000
Interest	90,668	90,668	83,350	7,318
Administrative charges	-	-	584	(584)
Total Expenditures	**$ 195,668**	**$ 195,668**	**$ 183,934**	**$ 11,734**
Net Change in Fund Balance	**$ -**	**$ -**	**$ 10,308**	**$ 10,308**
Fund Balance - January 1	**159,364**	**159,364**	**159,364**	**-**
Fund Balance - December 31	**$ 159,364**	**$ 159,364**	**$ 169,672**	**$ 10,308**

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TRAVERSE COUNTY
WHEATON, MINNESOTA

AGENCY FUNDS

School Districts - to account for the collection and payment of funds due to school districts.

State Revenue - to account for the state's share of collections and their payment to the state.

Taxes and Penalties - to account for the collection and payment to the various taxing districts of taxes and penalties collected.

Towns and Cities - to account for the collection and payment of funds due to towns and cities and special taxing districts.

Traverse County Connections - 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.

Employee Flex - to account for the collection and payment of the employees flex benefit account.

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

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TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT C-1

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Balance January 1	Additions	Deductions	Balance December 31
SCHOOL DISTRICTS				
Assets				
Cash and pooled investments	$ -	$ 1,189,416	$ 1,189,416	$ -
Liabilities				
Due to other governments	$ -	$ 1,189,416	$ 1,189,416	$ -
STATE REVENUE				
Assets				
Cash and pooled investments	$ 28,261	$ 562,276	$ 578,203	$ 12,334
Liabilities				
Due to other governments	$ 28,261	$ 573,283	$ 589,210	$ 12,334
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	$ 126,367	$ 8,657,356	$ 8,729,640	$ 54,083
Liabilities				
Due to other governments	$ 126,367	$ 8,657,356	$ 8,729,640	$ 54,083

TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT C-1
(Continued)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Balance January 1	Additions	Deductions	Balance December 31
TOWNS AND CITIES				
Assets				
Cash and pooled investments	$ (1,551)	$ 2,463,755	$ 2,463,755	$ (1,551)
Liabilities				
Due to other governments	$ (1,551)	$ 2,463,755	$ 2,463,755	$ (1,551)
TRAVERSE COUNTY CONNECTIONS				
Assets				
Cash and pooled investments	$ 11,186	$ 16,613	$ 14,456	$ 13,343
Liabilities				
Due to other governments	$ 11,186	$ 16,613	$ 14,456	$ 13,343
EMPLOYEE FLEX				
Assets				
Cash and pooled investments	$ (238)	$ 52,788	$ 48,683	$ 3,867
Liabilities				
Due to other governments	$ (238)	$ 52,788	$ 48,683	$ 3,867

TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT C-1
(Continued)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Balance January 1	Additions	Deductions	Balance December 31
COMMUNITIES UNITED IN PARTNERSHIP				
Assets				
Cash and pooled investments	$ 11,663	$ -	$ -	$ 11,663
Liabilities				
Due to other governments	$ 11,663	$ -	$ -	$ 11,663
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	$ 175,688	$ 12,942,204	$ 13,024,153	$ 93,739
Liabilities				
Due to other governments	$ 175,688	$ 12,953,211	$ 13,035,160	$ 93,739

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OTHER SCHEDULES

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TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT D-1

SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

Shared Revenue		
State		
Highway users tax	$	4,125,639
County Program aid		111,240
Market value credit		66,288
PERA rate reimbursement		16,482
Disparity reduction aid		18,577
Police aid		36,192
E-911		66,828
Total shared revenue	**$**	**4,441,246**
Reimbursement for Services		
State		
Minnesota Department of Human Services	**$**	**64,217**
Payments		
Local		
Local contributions	$	18,752
Payments in lieu of taxes		23,863
Total payments	**$**	**42,615**
Grants		
State		
Minnesota Department of		
Public Safety	$	114
Corrections		12,040
Transportation		506,709
Natural Resources		1,618
Human Services		220,140
Veterans Affairs		7,500
Water and Soil Resources Board		93,274
Pollution Control Agency		55,950
Total state	**$**	**897,345**
Federal		
Department of		
Agriculture	$	60,787
Transportation		230,730
Health and Human Services		308,596
Homeland Security		896
Total federal	**$**	**601,009**
Total state and federal grants	**$**	**1,498,354**
Total Intergovernmental Revenue	**$**	**6,046,432**

TRAVERSE COUNTY
WHEATON, MINNESOTA

EXHIBIT D-2

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number		Expenditures
U.S. Department of Agriculture			
Passed Through Minnesota Department of Human Services			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	**$**	**60,787**
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Highway Planning and Construction	20.205	**$**	**261,150**
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Human Services			
Promoting Safe and Stable Families	93.556	$	5,384
Temporary Assistance for Needy Families	93.558		43,918
Child Support Enforcement	93.563		35,899
Refugee and Entrant Assistance - State Administered Programs	93.566		159
Child Care and Development Block Grant	93.575		797
Community-Based Child Abuse Prevention Grants	93.590		5,000
Stephanie Tubbs Jones Child Welfare Services Program	93.645		772
Foster Care - Title IV-E	93.658		34,113
Social Services Block Grant	93.667		42,298
Chafee Foster Care Independence Program	93.674		860
Children's Health Insurance Program	93.767		33
Medical Assistance Program	93.778		139,363
Total U.S. Department of Health and Human Services		**$**	**308,596**
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Public Safety			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	$	9,217
Passed Through Central Minnesota Emergency Services Board			
Homeland Security Grant Program	97.067		549
Total U.S. Department of Homeland Security		**$**	**9,766**
Total Federal Awards		**$**	**640,299**

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

TRAVERSE COUNTY
WHEATON, MINNESOTA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Traverse County under programs of the federal government for the year ended December 31, 2013. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Traverse County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Traverse County.

3. Summary of Significant Accounting Policies

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

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	$ 601,009
Grants received more than 60 days after year-end, considered unavailable revenue in 2013	
Highway Planning and Construction (CFDA #20.205)	30,420
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA #97.036)	8,870
Expenditures Per Schedule of Expenditures of Federal Awards	$ 640,299

5. Subrecipients

The County did not pass any federal awards through to subrecipients during the year ended December 31, 2013.

Management and Compliance Section

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TRAVERSE COUNTY
WHEATON, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **Yes**

Noncompliance material to the financial statements noted? **No**

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Type of auditor's report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **Yes**

The major programs are:

Highway Planning and Construction	CFDA #20.205
Medical Assistance Program	CFDA #93.778

The threshold for distinguishing between Types A and B programs was $300,000.

Traverse County qualified as a low-risk auditee? **No**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 1996-003

Segregation of Duties

Criteria: A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

Condition: Several of the County's departments that collect fees lack proper segregation of duties. These departments generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts.

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

Effect: Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Cause: The County indicated that because of the small size of staff and because of unexpected staff absences, it is difficult to properly segregate duties.

Recommendation: We recommend that the County's elected officials and management be aware of the lack of segregation of duties of the accounting functions and, where possible, implement oversight procedures to ensure that the internal control policies and procedures are implemented by staff to the extent possible.

Client's Response:

Traverse County management is aware of the segregation of duties issues that arise as a result of our small department staff sizes. Traverse County will continually assess these areas and implement internal controls when possible to help alleviate this issue.

Finding 2006-003

Audit Adjustments

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Auditing standards define a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Condition: During our audit, we identified material adjustments that resulted in significant changes to the County's financial statements.

Context: The inability to make all necessary accrual adjustments or to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented. Some of the adjustments required additional time by the auditors to determine the correct balances.

Effect: The following audit adjustments were necessary:

Governmental Activities

- Increased revenue by $1,791,694 for receivables that were deferred on the modified accrual fund level statements but earned on the full accrual basis; and

- decreased revenue by $3,118,783 for revenues earned and recognized during 2012.

Road and Bridge Special Revenue Fund

- Increased due from other governments and unavailable revenue by $1,695,824 for the 2013 highway user tax shared revenues ($1,576,053); for the state and federal share of Federal Emergency Management Agency (FEMA) monies owed to the County for 2009 and 2013 flood damage expenditures ($89,351); and for Highway Planning and Construction federal award monies owed to the County for current period expenditures ($30,420).

Prairieview Place Enterprise Fund

- Increased accrued interest payable and interest expense by $7,847 for accrued interest on general obligation debt;

- increased the liability for bonds payable by $785,000 and unamortized premiums by $5,196 to recognize the General Obligation Governmental Housing Refunding Bonds, Series 2013A, as the transactions were classified as miscellaneous nonoperating revenues;

- decreased deferred bond issuance charges and increased amortization of deferred charges by $15,682 to eliminate deferred bond issuance charges in accordance with Governmental Accounting Standards Board Statement No. 65; and

- reclassified principal payments of $45,000 from expenses to the reduction of bonds payable.

Traverse Care Center Enterprise Fund

- Reclassified principal payments of $160,000 from expenses to the reduction of bonds payable; and

- reclassified principal payments of $3,175,000 from expenses to the reduction of bonds payable for the refunding of General Obligation Nursing Home Revenue Bonds, Series 2003A.

The adjustments were reviewed and approved by the appropriate County staff and are reflected in the financial statements.

Cause: Procedures were not in place to consider the full extent of all entries needed for financial reporting.

Recommendation: We recommend County staff review the trial balances and journal entries in detail and establish internal controls necessary to determine that all adjusting entries are made to ensure the County's financial statements are reported in accordance with generally accepted accounting principles.

<u>Client's Response</u>:

Traverse County staff will work to ensure that financial statements are prepared in accordance with generally accepted accounting principles.

Finding 2008-001

Assessing and Monitoring Internal Controls

Criteria: Management is responsible for the County's internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting. The risk assessment is intended to determine if the internal controls that have been established by County management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided.

Condition: Traverse County maintains narratives to document the controls in place over its significant transaction cycles; however, there is no formal risk assessment process in place to determine if the internal controls that have been established by County management are still effective or if changes are needed to maintain a sound internal control structure. In addition, our audit procedures detected areas and responsibilities performed by County staff with little or no documentation of the monitoring taking place by management or other staff members. Some areas with minimal or no monitoring include:

- review of journal entries;
- review of cash and investment balances and reconciliations;
- review of capital asset balances; and
- review of deposits to ensure securities are properly collateralized as required by Minn. Stat § 118A.03 at all times.

Context: Local governments tend to establish controls, but fail to periodically review those controls to ensure they are appropriate for all of the changes that take place over time.

Effect: The internal control environment is constantly changing with changes in staffing, information systems, processes, and services provided. Changes may have taken place that reduce or negate the effectiveness of internal controls, which may go unnoticed without a formal and timely assessment process in place.

Cause: The County indicated it does not have the staffing resources available to complete the risk assessment process.

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

Client's Response:

Traverse County will work to document our efforts of the evaluation of our internal controls. This effort will include documenting our processes, evaluations, and changes made.

Finding 2011-001

Timeliness of Preparation of Financial Statements

Criteria: Management is responsible for preparing the County's financial statements in accordance with generally accepted accounting principles (GAAP) and U.S. Office of Management and Budget (OMB) Circular A-133. Financial statement preparation in accordance with GAAP and OMB Circular A-133 requires internal control over both: (1) recording, processing, and summarizing accounting data (that is, 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.

Condition: Financial information was provided to the Office of the State Auditor more than two months later than scheduled. The information submitted to the auditors required numerous revisions affecting both the financial statements and related notes. Certain financial information related to long-term liabilities, necessary to materially state the financial statements, was not provided to the Office of the State Auditor until August 11, 2014.

Context: Preparation of information included in the County's financial statements is performed by the County Auditor-Treasurer's Office. That information is to be provided to the Office of the State Auditor in the time, form, and manner needed to finalize the audit in order to meet the County's audit deadline in accordance with OMB Circular A-133.

Effect: Additional audit hours resulted from delays in completing the County's financial statements within a reasonable amount of time. Also, errors were discovered which resulted in adjustments to the financial statements.

Cause: Certain financial information necessary for the County's financial statements was not completed in the time, form, and manner indicated in the audit preparation checklist completed by County staff. The County's staff is capable of preparing the financial statements but has historically had difficulties meeting the financial statement deadline required.

Recommendation: The County Board of Commissioners and management should take responsibility for the financial statements by reviewing internal controls currently in place over the preparation of the financial statements. Procedures should be implemented to ensure that the necessary financial information be prepared in a manner that allows the auditors an adequate amount of time to complete the audit by the County's required deadline.

Client's Response:

Traverse County has the same reporting requirements and duties of larger counties, and is faced with completing said duties with a much smaller staff. Traverse County staff will continue to improve on putting together the financial statements in a timely manner.

Finding 2011-002

Itemized Receipts for Credit Card Purchases

Criteria: Sound internal controls should provide a system to ensure that all credit card purchases are supported by itemized receipts. Additionally, Traverse County's credit card policy requires such documentation, and Minn. Stat. § 471.38, subd. 1, requires claims presented for payment must be in writing and itemized. Monthly statements received from a credit card company lack sufficient detail to comply with these requirements.

Condition: During control testing, we reviewed five credit card claims paid by Traverse County. Two of the credit card claims tested did not have an itemized vendor receipt to support all charges on the monthly billing.

Context: Documentation of claims paid is a fundamental requirement of a sound accounting system; it is the primary evidence used to support and explain the nature of the County's cash outlays and expenditures recorded in the general ledger.

Effect: Billings received from a credit card company lack sufficient detail to permit the County Board to review and approve expenditures incurred by using credit cards. In order to pay these bills, the County must have itemized invoices or receipts to support items charged.

Cause: Internal controls do not require Traverse County staff to provide itemized vendor invoices or receipts for all credit card purchases. Departmental personnel reviewing and authorizing payment of the credit card claims either did not request from staff the supporting documentation that was missing or did not follow up to ensure the necessary documentation was received and was valid before payment of the credit card billing.

Recommendation: We recommend Traverse County adhere to Minn. Stat. § 471.38, subd. 1, and to the County's credit card policy. Departmental personnel reviewing the claim should ensure that credit card claims are accompanied with itemized vendor invoices or receipts that support all charges.

Client's Response:

Traverse County follows the law and policy requiring an itemized invoice or receipt.

Finding 2012-001

Accounting Policies and Procedures Manual

Criteria: County management is responsible for the County's internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting. All governments should document their accounting policies and procedures. Although other methods may suffice, this documentation is traditionally in the form of an accounting policies and procedures manual. This manual should document the accounting policies and procedures that make up the County's internal control system. These policies and procedures should be designed to help detect and deter fraud, and include monitoring procedures.

Condition: The County does not have approved guidelines or instructions to follow in the form of a current and comprehensive accounting policies and procedures manual.

Context: County management has not documented the significant internal controls in its accounting system or created a formal plan to monitor its internal control structure and to ensure that Board-approved practices are followed as intended.

Effect: In lieu of formal written accounting policies and procedures, informal practices and procedures can become unwritten standards that can have unintended consequences. Without a concisely written, comprehensive policies and procedures manual clearly identifying County policies and procedures required to be followed, potential misunderstandings or abusive practices may occur.

Cause: No formal action has been taken to provide County personnel with procedures to perform consistent treatment of accounting transactions.

Recommendation: We recommend the County Auditor/Treasurer establish an accounting policies and procedures manual. The accounting policies and procedures manual should be prepared by appropriate levels of management and be approved by the County Board to emphasize its importance and authority. The documentation should describe procedures as they are intended to be performed, indicate which employees are to perform which procedures, and explain the design and purpose of control-related procedures to increase employee understanding and support for controls.

Client's Response:

Traverse County will put together an accounting policies and procedures manual.

Finding 2012-002

Network/Application Password Controls

Criteria: County management is responsible for the County's internal controls over its information systems. This requires establishing security policies and performing assessments of existing controls to determine if the internal controls established are still effective or if changes are needed to ensure County data is protected as prescribed by management.

Condition: Traverse County updated to a new version of the Integrated Financial System (IFS) application software. This application was written as a web-based application and may be run on a server or a mainframe system. For an employee of Traverse County to access the new IFS application, the user must be signed on to the County network and have a current sign-on for the IFS application. The sign-on differs from the sign-on for the IBM I Series system, so the mainframe security settings do not apply to the application. Traverse County has not reviewed the network controls or assessed risks from the change to a web-based application to ensure password controls are working as intended.

Context: The IFS application is the general ledger for Traverse County. Detailed receipt and disbursement transactions as well as budget information are maintained on the IFS application throughout the year. This information is used by management to monitor the resources available and make decisions based on the available resources. At or near year-end, certain accrual information is also recorded in the application. The information maintained within the IFS application is the key source of information used for the preparation of the County's annual financial statements.

Effect: Normal password controls in place in the IBM I Series system are not effective for the IFS application, so a review of the IFS application controls and County network controls is imperative to ensure passwords are working as intended.

Cause: Traverse County updated to a new web-based version of the IFS application software. Although County management was made aware of some of the password implications of this change during the previous audit, updates needed are not complete.

Recommendation: We recommend Traverse County management complete updates and review password controls in place that limit access to the IFS application to ensure they are appropriate to protect the County data as prescribed by management.

Client's Response:

Traverse County has a policy in place that addresses network password guidelines.

PREVIOUSLY REPORTED ITEMS RESOLVED

New Vendors (2011-003)

In prior audits, we noted that the employee responsible for adding new vendors to the accounting system was also responsible for processing payments to vendors. Traverse County did not have any formal procedures for determining if new vendors had been added to the accounts payable system or if all new vendors added were legitimate vendors.

Resolution

Traverse County implemented internal control procedures which include a review of new vendors by an employee independent of the accounts payable function.

Budgeting (2012-003)

The Board-approved budgets for the Road and Bridge Special Revenue Fund, the Jail/LEC Debt Service Fund, and the Traverse Care Center Enterprise Fund were not entered into the County's general ledger system.

Resolution

For 2013, budgets for the Road and Bridge Special Revenue Fund and the Jail/LEC Debt Service Fund were entered into the County's general ledger. The County Board did not approve a budget for the Traverse Care Center Enterprise Fund for 2013.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2010-001

Identification of Federal Awards

Programs: U.S. Department of Transportation's Highway Planning and Construction (CFDA No. 20.205), and U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778)

Pass-Through Agencies: Minnesota Department of Transportation and Minnesota Department of Human Services

Criteria: OMB Circular A-133, Subpart C, § .300, indicates auditee responsibilities include the identification of all federal awards received and expended and the federal programs under which they were received.

Condition: The County did not adequately identify amounts received and expended for various federal awards on the Schedule of Federal Awards (SEFA). During our audit of the SEFA, we identified the following significant adjustments:

- The County did not include $30,420 additional expenditures for the Highway Planning and Construction (CFDA No. 20.205) award because receivables and unavailable revenue was not booked.

- The County included $69,179 additional expenditures on the SEFA for the Medical Assistance Program (CFDA No. 93.778) because intergovernmental revenue reimbursement accounts had CFDA numbers assigned to them when there should not have been such an assignment.

Questioned Costs: None.

Context: The County provided a SEFA for 2013 which reported total federal expenditures of $781,088, while the SEFA after audit adjustments reported total expenditures of $640,299, resulting in a difference of $140,789.

Effect: The inability to identify and accurately record federal financial assistance in the County's accounting records in order to prevent misstatements in the Schedule of Expenditures of Federal Awards (SEFA) increases the likelihood that the SEFA would not be fairly stated. This condition results in a deficiency in internal control over financial statement and SEFA preparation and the reporting of federal financial assistance in accordance with OMB Circular A-133 for the award programs audited as major federal programs.

Cause: To prepare the SEFA, the County relied on the Integrated Financial System (IFS) generated SEFA, which is based on accounts labeled with CFDA numbers. The CFDA numbers for several accounts should be removed, as they are improperly labeled, and thus improperly included in the SEFA. In addition, adjustments were recorded that changed amounts reported for programs included in the County's SEFA.

Recommendation: We recommend the County's management develop a system and written procedures that will allow staff to correctly identify and classify all federal financial assistance received and expended. Procedures should include determination of the correct program CFDA number, revenue source, and program name. The process must also be monitored to ensure it is working properly.

<u>Corrective Action Plan</u>:

<u>Name of Contact Person Responsible for Corrective Action</u>:

Kit Johnson, County Auditor/Treasurer

<u>Corrective Action Planned</u>:

The financial reporting staff of the County will work together to accurately identify and report the federal programs and amounts to be reported on the SEFA.

<u>Anticipated Completion Date</u>:

March 2015 (data for the 2014 financial statements)

<u>PREVIOUSLY REPORTED ITEM RESOLVED</u>

Activities Allowed or Unallowed and Allowable Costs/Cost Principles - Approval of Disbursements (CFDA No. 93.778) (2011-006)

During the prior audit, we noted that for three of six Social Services disbursements tested, there was no evidence to indicate they were reviewed and approved by a supervisor or the Director.

Resolution

The County implemented additional review procedures that include the Director signing a copy of the warrant register after reviewing all claims.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

Finding 2013-001

Contract Bidding Process

Criteria: Pursuant to Minn. Stat. §§ 471.345, subd. 3, and 375.21, contracts estimated to exceed $100,000 must be made using sealed bids solicited by public notice by advertising for bids in a qualified legal newspaper of the County or through the alternative dissemination of bids and requests provided by Minn. Stat. § 331A.03.

Condition: On May 21, 2013, the County Board approved the completion of an upgrade to the E-911 phone system using E-911 designated funds for the project. Although the contract was above the bid threshold, the County could not provide documentation showing compliance with Minnesota law. In addition, no advertisement for bids was published in a qualified legal newspaper.

Context: The County Board approved the contract with Independent Emergency Services for the E-911 New Generation phone system in the amount of $127,134.

Effect: Without proper documentation, we were unable to determine compliance with Minn. Stat. §§ 471.345, subd. 3, and 375.21 in awarding the contract for the E-911 New Generation phone system.

Cause: There was likely a breakdown in communication of the statutory requirements for contracts estimated to exceed $100,000 or who would be responsible for ensuring those requirements are met. Proper documentation was not maintained regarding the contracting process.

Recommendation: We recommend the County establish procedures to ensure contracts are presented to the Board of County Commissioners for approval and that the approval be documented in the official minutes. We further recommend that any officials involved in the contracting process be informed of the statutory requirements to ensure compliance with Minn. Stat. §§ 471.345, subd. 3, and 375.21 for all future contracts, and that adequate documentation of compliance be maintained.

Client's Response:

The Traverse County Sheriff's Office and Traverse County Attorney do not believe that this is a violation of the contract bidding process. Regardless, Traverse County will educate all staff on bidding laws.

PREVIOUSLY REPORTED ITEM RESOLVED

Publication of Board Minutes (2012-004)

During the prior audit, we reviewed the affidavits of publication related to the publishing of a summary of the County Board minutes for 2012 and found that some of the summaries were not published in the County's official newspaper within the 30-day statutory requirement.

Resolution

Significant improvements in the publications of County Board minutes were made during 2013.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 1997-005

Prairieview Place and Traverse Care Center Deficit Net Position

Criteria: Assets should exceed liabilities in order for the County to meet its obligations and maintain a positive net position.

Condition: As of December 31, 2013, the assets in the County's Prairieview Place Enterprise Fund and Traverse Care Center Enterprise Fund did not exceed liabilities, resulting in deficit net position.

Context: As of December 31, 2013, the Prairieview Place Enterprise Fund had deficit net position of $283,627, which is a decrease in net position from the $222,498 deficit reported in the prior year. As of December 31, 2013, the Traverse Care Center Enterprise Fund had deficit net position of $512,510, which is a decrease from the deficit balance of $372,773 reported in the prior year.

Effect: A fund with a deficit net position does not have sufficient assets to meet its financial obligations or liabilities.

Cause: The net position in the County's Prairieview Place Enterprise Fund decreased by $61,129 in 2013; nonoperating revenue of $94,606 was offset by operating expenses of $46,435, interest expense on debt of $67,786, and bond issuance costs of $41,514. The County's Traverse Care Center Enterprise Fund's net position balance decreased by $139,737 in 2013; operating revenue of $15,500 and nonoperating revenue of $299,302 was offset by operating expenses of $322,122 and nonoperating expenses of $132,417.

Recommendation: We recommend that the County monitor fund net position and eliminate the deficit net position by increasing revenues or appropriating sufficient funds to cover expenditures.

Client's Response:

Traverse County management is fully aware of the financial condition of Prairieview Place and the Traverse Care Center.

Finding 2012-005

Holdback Period for Payroll

Criteria: A positive payroll system generally requires the use of a holdback period to allow for processing time and provides additional assurance that employees are paid only for those hours that have been worked.

Condition: Payroll is processed bi-monthly for regular full-time employees. There is no lag time from the time worked to the time paid. Employees are paid on the 15th and on the last day of the month and receive 1/24th of their annual salary. Time sheets record the activity from the 1st of the month to the 15th, and from the 16th to the last working day of the month. As a result, payroll is processed without a review of hours worked.

Context: In a positive payroll system, employees are paid for the hours worked in a completed pay period and reported on time sheets that have been signed by the employee and approved by the supervisor.

Effect: Time sheets are not signed by the employee and approved by the supervisor until after payroll has been processed and payment to employees has been made. Incorrect payment could be made to employees.

Cause: The County is reluctant to implement a holdback period due to the implications it may have on employees related to the timing of paychecks.

Recommendation: We recommend the County implement a positive payroll system where wages are not paid until payroll information for a completed pay period has been received and reviewed. A holdback period should be established to allow for processing. The holdback period can be implemented gradually; for example, employees may be paid for one day less a pay period until a traditional two-week holdback period is in place.

Client's Response:

Traverse County management has made a payroll holdback period a priority during union negotiations, and they plan to implement a holdback period in 2015.

REBECCA OTTO
STATE AUDITOR

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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*

Independent Auditor's Report

Board of County Commissioners
Traverse County

We have audited, 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, the 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, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 29, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Traverse County's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other items that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2006-003 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 1996-003, 2008-001, 2011-001, 2011-002, 2012-001, and 2012-002 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Traverse County's financial statements are free from 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

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the County's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because Traverse County has no tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that Traverse County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions,* except as described in the Schedule of Findings and Questioned Costs as item 2013-001. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Other Matters

Also included in the Schedule of Findings and Questioned Costs are management practices comments. We believe these recommendations to be of benefit to the County, and they are reported for that purpose.

Traverse County's Response to Findings

Traverse County's responses to the internal control, legal compliance, and management practices findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 29, 2014

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Board of County Commissioners
Traverse County

Report on Compliance for Each Major Federal Program

We have audited Traverse County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2013. Traverse County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility
Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for each of Traverse County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Traverse County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Traverse County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2010-001, that we consider to be a significant deficiency.

Traverse County's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. Traverse County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 29, 2014