

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

WADENA COUNTY
WADENA, MINNESOTA

YEAR ENDED DECEMBER 31, 2011

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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**WADENA COUNTY
WADENA, MINNESOTA**

Year Ended December 31, 2011



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

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**WADENA COUNTY
WADENA, MINNESOTA**

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WADENA, MINNESOTA**

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**WADENA COUNTY
WADENA, MINNESOTA**

**ORGANIZATION
DECEMBER 31, 2011**

Office	Name	District	Term Expires
Elected			
Commissioners			
Board Member	Lane Waldahl	District 1	January 2015
Vice Chair	Ralph Miller	District 2	January 2013
Board Member	William Stearns	District 3	January 2015
Chair	Rodney Bounds	District 4	January 2013
Board Member	David Hillukka	District 5	January 2015
Attorney	Kyra Ladd		January 2015
Auditor/Treasurer	Charleen West		January 2015
County Recorder	Soledad Henriksen		January 2015
Registrar of Titles	Soledad Henriksen		January 2015
County Sheriff	Michael D. Carr		January 2015
Appointed			
Assessor	Lee Brekke		December 2012
County Engineer	Ryan Odden		May 2015
Coroner	Tim B. Schmitt, M.D.		Indefinite
Community Corrections Officer	Kathryn Langer		Indefinite
Social Services Director	Paul Sailer		Indefinite
Veterans Services Officer	David Anderson		April 2013

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Wadena County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wadena County, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Wadena County's management. 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Wadena County as of December 31, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1.D.9., Wadena County has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

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. In accordance with auditing standards generally accepted in the United State of America, we have applied certain limited procedures to the required supplementary information, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated December 14, 2012, on our consideration of Wadena County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 14, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**WADENA COUNTY
WADENA, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011
(Unaudited)**

As management of Wadena County, we offer readers of the Wadena County financial statements this narrative overview and analysis of the financial activities of Wadena County for the fiscal year ended December 31, 2011. We encourage readers to consider the information presented here in conjunction with the County's basic financial statements following this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

- The assets of Wadena County exceeded its liabilities by \$46,088,323 at the close of 2011. Of this amount, \$8,137,685 (unrestricted net assets) may be used to meet Wadena County's ongoing obligations to citizens and creditors.
- At the close of 2011, Wadena County's governmental funds reported combined ending fund balances of \$7,749,660, an increase of \$916,343 in comparison with the prior year. Of the total fund balance, \$5,493,844 is available for spending at the County's discretion and is noted as committed, assigned, and unassigned fund balance.
- At the close of 2011, the committed, assigned, and unassigned fund balance for the General Fund was \$1,733,779, or 30.3 percent, of total General Fund expenditures.
- Wadena County is currently free of any bonded indebtedness.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Management's Discussion and Analysis (MD&A) is intended to serve as an introduction of Wadena County's basic financial statements. The County's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund level financial statements, and (3) notes to the financial statements. The MD&A is required to accompany the basic financial statements and is included as required supplementary information. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

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

The statement of net assets presents information on all of Wadena County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as useful indicators of whether the financial position of Wadena County is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (such as uncollected taxes and earned but unused vacation leave).

The County's government-wide financial statements report functions of the County principally supported by taxes and intergovernmental revenues. The governmental activities of Wadena County include general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, and conservation of natural resources.

The government-wide financial statements can be found as Exhibits 1 or 2 of this report.

Fund Level Financial Statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Wadena County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Wadena County can be divided into two categories--governmental funds and fiduciary funds.

Governmental Funds

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, County fund level financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing 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 government's short-term financing 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.

Wadena County reports six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the General Fund, Road and Bridge Special Revenue Fund, Social Services Special Revenue Fund, and Solid Waste Special Revenue Fund, all of which are considered to be major funds. Data from the other two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements after the notes to the financial statements.

Fiduciary Funds

The County is responsible for assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The County's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These activities are excluded from the government-wide financial statements because the County cannot use these assets to finance its operations.

Note to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided.

Other Information

In addition to the basic financial statements and notes, supplementary information is provided on Wadena County's budgeted funds, deposits and investments, and intergovernmental revenues.

Wadena County adopts an annual appropriated budget for its General Fund and major special revenue funds. To demonstrate compliance with these budgets, budgetary comparison statements have been provided as required supplemental information for the County's major funds. Wadena County also budgets for the Public Health Special Revenue Fund and Transit Special Revenue Fund, which are nonmajor funds, as supplemental information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. Wadena County's assets exceeded liabilities by \$46,088,323 at the close of 2011. The largest portion of Wadena County's net assets (78 percent) reflects its investment in capital assets (land, infrastructure, buildings, and equipment). However, it should be noted that these assets are not available for future spending.

Governmental Net Assets

	2011	2010
Current and other assets	\$ 12,076,398	\$ 10,016,451
Capital assets	35,965,048	34,780,142
Total Assets	\$ 48,041,446	\$ 44,796,593
Long-term liabilities outstanding	\$ 993,578	\$ 981,568
Other liabilities	959,545	1,042,382
Total Liabilities	\$ 1,953,123	\$ 2,023,950
Net Assets		
Invested in capital assets	\$ 35,965,048	\$ 34,780,142
Restricted	1,977,733	1,491,711
Held in trust for other purposes	7,857	15,020
Unrestricted	8,137,685	6,485,770
Total Net Assets	\$ 46,088,323	\$ 42,772,643

The unrestricted net asset amount of \$8,137,685 as of December 31, 2011, may be used to meet the County's ongoing obligations to citizens and creditors.

Governmental Activities

Wadena County's activities increased net assets by \$3,315,680, or 7.75 percent, over the 2010 net assets. The key element of the increase in net assets was the increase invested in unrestricted net assets by \$1,636,895 for the General Fund, Social Services Special Revenue Fund, and Road and Bridge Special Revenue Fund.

Changes in Net Assets

	2011	2010
Revenues		
Program revenues		
Charges for services	\$ 3,411,018	\$ 3,089,882
Operating grants and contributions	8,071,551	7,916,567
Capital grants and contributions	384,009	739,552
General revenues		
Property taxes	7,096,262	6,845,747
Other taxes	163	171
Grants and contributions not restricted to specific programs	1,606,662	1,598,570
Other	293,101	785,124
Total Revenues	\$ 20,862,766	\$ 20,975,613

	<u>2011</u>	<u>2010</u>
Expenses		
General government	\$ 2,931,529	\$ 3,164,831
Public safety	2,106,511	2,506,575
Highways and streets	3,096,481	2,460,664
Sanitation	2,191,846	1,239,817
Human services	5,408,196	5,405,280
Health	1,138,576	1,295,621
Culture and recreation	173,447	203,635
Conservation of natural resources	<u>500,500</u>	<u>210,378</u>
Total Expenses	<u>\$ 17,547,086</u>	<u>\$ 16,486,801</u>
Increase in Net Assets	\$ 3,315,680	\$ 4,488,812
Net Assets, January 1	<u>42,772,643</u>	<u>38,283,831</u>
Net Assets, December 31	<u>\$ 46,088,323</u>	<u>\$ 42,772,643</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the County's governmental funds is to provide information on short-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, committed, assigned, and unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$7,749,660, an increase of \$916,343 in comparison with the prior year. The committed, assigned, and unassigned fund balance in the amount of \$5,493,844 is available for spending at the County's discretion. The remainder of fund balance is nonspendable or restricted to indicate that it is not available for new spending because it has already been committed.

The General Fund is the chief operating fund of Wadena County. At the end of the current fiscal year, committed, assigned, and unassigned fund balance of the General Fund was \$1,733,779, while total fund balance was \$3,483,007. As a measure of the General Fund's liquidity, it may be useful to compare committed, assigned, and unassigned fund balance to total fund expenditures. Assigned and unassigned fund balance represents 30.3 percent of total General Fund expenditures. In 2011, fund balance in the General Fund increased by \$691,111. This increase was due to excess revenues over expenditures of \$898,221 offset by transfers out of \$207,110.

In 2010, the General Fund had excess revenues over expenditures of \$502,743. The 2011 \$395,478 increase in excess revenues over expenditures is mainly due to an increase in property tax revenues of \$174,923, an increase in miscellaneous revenues of \$283,048, a decrease in general government expenditures of \$207,303, a decrease in public safety expenditures of \$373,839, and a decrease in culture and recreation expenditures of \$30,188, offset by a decrease in intergovernmental revenues of \$393,499 and an increase in conservation of natural resources expenditures of \$287,811.

The Road and Bridge Special Revenue Fund's fund balance increased \$355,696, due to excess revenues over expenditures of \$329,649. In 2010, the Road and Bridge Special Revenue Fund had excess revenues over expenditures of \$185,531. The 2011 \$144,118 increase in excess revenues over expenditures is mainly due to an increase in property tax revenues of \$10,204, an increase in intergovernmental revenues of \$82,369, and a decrease in highway and street expenditures of \$132,540, offset by a decrease in miscellaneous revenues of \$67,970.

The Social Services Special Revenue Fund's fund balance increased \$417,621, due to excess revenues over expenditures. In 2010, the Social Services Special Revenue Fund had excess revenues over expenditures of \$903,406. The decrease in excess revenues over expenditures is due to a decrease in intergovernmental revenues of \$373,931, a decrease in miscellaneous revenues of \$69,561, and an increase in social services expenditures of \$38,531.

General Fund Budgetary Highlights

The difference between the General Fund original budget and the final amended budget was a net change of \$38,200. The difference between the actual amounts and the final amended budget was a net difference of \$652,911. The main revenue variance was due to a decrease in property taxes and an increase in intergovernmental revenues (due to the unknown value of market value credits at the time of budgeting) and an increase in miscellaneous revenues. The main expenditure variances were due to increase in conservation and natural resources for the Agricultural society/County fair (rebuilding of the County Fairgrounds) and a decrease in unallocated expenses (due to the budgeting of a transfer out to the Solid Waste Fund that was not required and funding of cash reserves).

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2011, was \$35,965,048 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The County's investment in capital assets for the current fiscal year increased 3.4 percent. The net increase was attributed to the County's investment in its infrastructure.

Governmental Capital Assets

	<u>2011</u>	<u>2010</u>
Land and construction in progress	\$ 604,959	\$ 993,524
Infrastructure	32,299,494	30,881,158
Buildings and building improvements	1,495,177	1,470,401
Furniture, equipment, and machinery	<u>1,565,418</u>	<u>1,435,059</u>
Total	<u>\$ 35,965,048</u>	<u>\$ 34,780,142</u>

Additional information on the County's capital assets can be found in the notes to the financial statements.

Long-Term Debt

At the end of the current fiscal year, Wadena County had no bonded indebtedness.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

- Wadena County's unemployment rate was 6.8 percent at the end of 2011 compared to the statewide rate of 5.3 percent for the same time period.
- Wadena County is not subject to levy limits for 2013.
- Wadena County's property tax delinquency was 4.26 percent at the end of 2011, which is down from the previous year's delinquent rate of 3.92 percent.
- Wadena County will again be subject in 2013 to the Homestead Market Value Exclusion which the legislature initiated in 2012 to replace the Homestead Market Value Credit which has shifted the county-received state revenue to the property taxpayer and increased Wadena County's net tax capacity rate from 86.61 percent in payable 2012 to 96.99 percent in payable 2013. The Wadena County Commissioners approved a Preliminary Payable 2013 Tax Levy of 1.5 percent increase.

- Wadena County was hit by an F4 tornado on June 17, 2010, which resulted in an estimated cost to the County of \$1.5 to \$2 million. It is anticipated that 100 percent of this expense will be paid by insurance, FEMA, and state funds. The Solid Waste Debris Management Site has been cleared and returned to its original state, and rebuilding of the Wadena County Fairgrounds buildings and structures is in progress.

REQUESTS FOR INFORMATION

This annual financial report is designed to provide a general overview of the County's finances for all those with an interest in the County's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Wadena County Auditor/Treasurer, Wadena County Courthouse, 415 Jefferson Street South, Wadena, Minnesota 56482.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**WADENA COUNTY
WADENA, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2011**

Assets

Cash and pooled investments	\$ 7,685,671
Petty cash and change funds	3,390
Taxes receivable	
Current	256,768
Prior	207,216
Special assessments receivable	
Current	21,742
Prior	18,857
Accounts receivable	107,363
Accrued interest receivable	5,910
Due from other governments	2,680,045
Advances receivable	106,250
Inventories	186,899
Investment in joint venture	796,287
Capital assets	
Non-depreciable	604,959
Depreciable - net of accumulated depreciation	<u>35,360,089</u>
Total Assets	<u>\$ 48,041,446</u>

Liabilities

Accounts payable	\$ 333,375
Salaries payable	350,349
Contracts payable	38,078
Due to other governments	222,912
Customer deposits	500
Unearned revenue	14,331
Long-term liabilities	
Due within one year	452,489
Due in more than one year	<u>541,089</u>
Total Liabilities	<u>\$ 1,953,123</u>

Net Assets

Invested in capital assets	\$ 35,965,048
Restricted for	
General government	714,939
Public safety	160,805
Highways and streets	824,999
Sanitation	57,324
Human services	169,039
Culture and recreation	3,461
Conservation of natural resources	47,166
Held in trust for other purposes	7,857
Unrestricted	<u>8,137,685</u>
Total Net Assets	<u>\$ 46,088,323</u>

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

**WADENA COUNTY
WADENA, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

		Program Revenues			
Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets	
<u>Functions/Programs</u>					
Primary government					
Governmental activities					
General government	\$ 2,931,529	\$ 345,447	\$ 110,392	\$ -	\$ (2,475,690)
Public safety	2,106,511	80,770	261,980	-	(1,763,761)
Highways and streets	3,096,481	79,021	2,625,054	384,009	(8,397)
Sanitation	2,191,846	1,028,550	1,411,204	-	247,908
Human services	5,408,196	1,494,158	2,830,661	-	(1,083,377)
Health	1,138,576	255,510	729,983	-	(153,083)
Culture and recreation	173,447	18,935	74,437	-	(80,075)
Conservation of natural resources	500,500	108,627	27,840	-	(364,033)
Total Governmental Activities	<u>\$ 17,547,086</u>	<u>\$ 3,411,018</u>	<u>\$ 8,071,551</u>	<u>\$ 384,009</u>	<u>\$ (5,680,508)</u>
 General Revenues					
Property taxes				\$ 7,096,262	
Mineral taxes				91	
Other taxes				72	
Payments in lieu of tax				55,591	
Grants and contributions not restricted to specific programs				1,551,071	
Unrestricted investment earnings				62,529	
Miscellaneous				230,572	
Total general revenues				<u>\$ 8,996,188</u>	
Change in Net Assets					\$ 3,315,680
Net Assets - Beginning					<u>42,772,643</u>
Net Assets - Ending					<u>\$ 46,088,323</u>

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**WADENA COUNTY
WADENA, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 2,804,033	\$ 1,835,662
Petty cash and change funds	2,700	100
Undistributed cash in agency funds	108,085	25,615
Taxes receivable		
Current	156,247	44,440
Prior	119,346	39,617
Special assessments receivable		
Current	-	-
Prior	-	-
Accounts receivable	6,228	21,432
Accrued interest receivable	5,887	-
Due from other funds	5,757	3,336
Due from other governments	122,330	1,065,301
Inventories	-	186,899
Advances to other funds	815,000	10,000
	\$ 4,145,613	\$ 3,232,402
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 103,265	\$ 36,045
Salaries payable	136,223	65,203
Contracts payable	-	38,078
Due to other funds	5,784	125
Due to other governments	143,584	8,986
Advances from other funds	-	-
Customer deposits	-	500
Deferred revenue - unavailable	273,750	1,110,239
Deferred revenue - unearned	-	-
	\$ 662,606	\$ 1,259,176

EXHIBIT 3

<u>Social Services</u>	<u>Solid Waste</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 2,188,401	\$ 428,030	\$ 249,623	\$ 7,505,749
200	250	140	3,390
32,038	14,184	-	179,922
56,081	-	-	256,768
48,253	-	-	207,216
-	21,742	-	21,742
-	18,857	-	18,857
4,838	68,230	6,635	107,363
-	-	23	5,910
4,706	17	7,712	21,528
307,310	973,384	206,748	2,675,073
-	-	-	186,899
33,750	2,500	7,500	868,750
<u>\$ 2,675,577</u>	<u>\$ 1,527,194</u>	<u>\$ 478,381</u>	<u>\$ 12,059,167</u>
\$ 155,796	\$ 26,941	\$ 11,328	\$ 333,375
94,746	4,626	49,551	350,349
-	-	-	38,078
7,708	2,847	92	16,556
11,191	55,278	3,873	222,912
262,500	500,000	-	762,500
-	-	-	500
86,362	1,005,677	94,878	2,570,906
-	-	14,331	14,331
<u>\$ 618,303</u>	<u>\$ 1,595,369</u>	<u>\$ 174,053</u>	<u>\$ 4,309,507</u>

**WADENA COUNTY
WADENA, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
(Continued)		
Fund Balances		
Nonspendable		
Inventories	\$ -	\$ 186,899
Advances to other funds	815,000	10,000
Restricted		
Law library	438	-
Recorder's equipment	80,064	-
Sheriff's forfeited property	6,499	-
Enhanced 911	132,177	-
Mental health initiative	-	-
Peer center	-	-
Emergency management	479	-
Missing heirs	7,857	-
Compliance fund	98,972	-
State-aid highway projects	-	39,576
Attorney's forfeited property	26,705	-
HAVA	56,564	-
ISTS	36,783	-
SCORE	-	-
Gun permits	21,650	-
Shoreline grant	10,383	-
Building fund	452,196	-
Parks	3,461	-
Committed		
Parks	34,886	-
Timber development	8,812	-
AS400	23,969	-
Sheriff's contingencies	5,000	-
Fairgrounds rebuilding disaster	414,817	-
Assigned		
Canteen	14,449	-
Road and bridge	-	1,736,751
County agent brochures	2,827	-
Human services	-	-
GIS	40,918	-
County agent	4,209	-
Plat books	20,933	-
Transit	-	-
Public health nurse	-	-
Unassigned	1,162,959	-
Total Fund Balances	\$ 3,483,007	\$ 1,973,226
Total Liabilities and Fund Balances	\$ 4,145,613	\$ 3,232,402

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

EXHIBIT 3
(Continued)

<u>Social Services</u>	<u>Solid Waste</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ 186,899
33,750	2,500	7,500	868,750
-	-	-	438
-	-	-	80,064
-	-	-	6,499
-	-	-	132,177
167,908	-	-	167,908
1,131	-	-	1,131
-	-	-	479
-	-	-	7,857
-	-	-	98,972
-	-	-	39,576
-	-	-	26,705
-	-	-	56,564
-	-	-	36,783
-	57,324	-	57,324
-	-	-	21,650
-	-	-	10,383
-	-	-	452,196
-	-	-	3,461
-	-	-	34,886
-	-	-	8,812
-	-	-	23,969
-	-	-	5,000
-	-	-	414,817
-	-	-	14,449
-	-	-	1,736,751
-	-	-	2,827
1,854,485	-	-	1,854,485
-	-	-	40,918
-	-	-	4,209
-	-	-	20,933
-	-	103,450	103,450
-	-	193,378	193,378
-	(127,999)	-	1,034,960
<u>\$ 2,057,274</u>	<u>\$ (68,175)</u>	<u>\$ 304,328</u>	<u>\$ 7,749,660</u>
<u>\$ 2,675,577</u>	<u>\$ 1,527,194</u>	<u>\$ 478,381</u>	<u>\$ 12,059,167</u>

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**WADENA COUNTY
WADENA, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2011**

Fund balances - total governmental funds (Exhibit 3)		\$ 7,749,660
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		35,965,048
Investment in joint venture is not available to pay for current period expenditures and, therefore, is not reported in the governmental funds.		796,287
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		2,570,906
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Compensated absences	\$ (759,352)	
Net OPEB liability	<u>(234,226)</u>	<u>(993,578)</u>
Net Assets of Governmental Activities (Exhibit 1)		<u><u>\$ 46,088,323</u></u>

**WADENA COUNTY
WADENA, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	General	Road and Bridge
Revenues		
Taxes	\$ 4,312,992	\$ 1,211,878
Special assessments	-	-
Licenses and permits	53,217	-
Intergovernmental	1,458,482	3,210,398
Charges for services	246,173	-
Fines and forfeits	29,843	-
Gifts and contributions	5,700	-
Investment earnings	62,022	-
Miscellaneous	449,931	79,021
	\$ 6,618,360	\$ 4,501,297
Expenditures		
Current		
General government	\$ 2,965,749	\$ -
Public safety	2,081,275	-
Highways and streets	-	4,003,547
Sanitation	-	-
Human services	-	-
Health	-	-
Culture and recreation	173,447	-
Conservation of natural resources	499,668	-
Intergovernmental	-	168,101
	\$ 5,720,139	\$ 4,171,648
Excess of Revenues Over (Under) Expenditures	\$ 898,221	\$ 329,649
Other Financing Sources (Uses)		
Transfers in	\$ -	\$ -
Transfers out	(207,110)	-
	\$ (207,110)	\$ -
Net Change in Fund Balance	\$ 691,111	\$ 329,649
Fund Balance - January 1, as restated (Note 1.E.)	2,791,896	1,617,530
Increase (decrease) in inventories	-	26,047
Fund Balance - December 31	\$ 3,483,007	\$ 1,973,226

EXHIBIT 5

<u>Social Services</u>	<u>Solid Waste</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 1,528,054	\$ 20,049	\$ -	\$ 7,072,973
-	393,399	-	393,399
-	200	20,679	74,096
2,850,256	151,823	1,091,870	8,762,829
-	995,770	292,470	1,534,413
-	-	-	29,843
-	-	1,000	6,700
-	-	290	62,312
1,105,247	33,012	53,418	1,720,629
\$ 5,483,557	\$ 1,594,253	\$ 1,459,727	\$ 19,657,194
\$ -	\$ -	\$ -	\$ 2,965,749
-	-	-	2,081,275
-	-	-	4,003,547
-	2,250,501	-	2,250,501
5,065,936	-	402,061	5,467,997
-	-	1,156,613	1,156,613
-	-	-	173,447
-	-	-	499,668
-	-	-	168,101
\$ 5,065,936	\$ 2,250,501	\$ 1,558,674	\$ 18,766,898
\$ 417,621	\$ (656,248)	\$ (98,947)	\$ 890,296
\$ -	\$ -	\$ 207,110	\$ 207,110
-	-	-	(207,110)
\$ -	\$ -	\$ 207,110	\$ -
\$ 417,621	\$ (656,248)	\$ 108,163	\$ 890,296
1,639,653	588,073	196,165	6,833,317
-	-	-	26,047
\$ 2,057,274	\$ (68,175)	\$ 304,328	\$ 7,749,660

**WADENA COUNTY
WADENA, 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, 2011**

Net change in fund balance - total governmental funds (Exhibit 5) \$ 890,296

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

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

Deferred revenue - December 31	\$ 2,570,906	
Deferred revenue - January 1	<u>(1,678,127)</u>	892,779

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

Expenditures for general capital assets and infrastructure	\$ 2,626,594	
Current year depreciation	<u>(1,441,688)</u>	1,184,906

In the statement of net assets, an asset is reported for the equity interest in joint ventures. The change in net assets differs from the change in fund balance by the increases and decreases in the investment in joint venture. 333,662

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

Change in compensated absences	\$ 50,705	
Change in inventories	26,047	
Net OPEB liability	<u>(62,715)</u>	<u>14,037</u>

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 3,315,680

FIDUCIARY FUNDS

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**WADENA COUNTY
WADENA, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2011**

	Family Service Collaborative Investment Trust	Health Reimbursement Employee Benefit Trust	Agency Funds
	<hr/>	<hr/>	<hr/>
<u>Assets</u>			
Cash and pooled investments	\$ 144,060	\$ 313,299	\$ 323,631
Receivables			
Interest	82	-	-
Due from other governments	7,403	-	-
	<hr/>	<hr/>	<hr/>
Total Assets	\$ 151,545	\$ 313,299	\$ 323,631
	<hr/>	<hr/>	<hr/>
<u>Liabilities</u>			
Accounts payable	\$ -	\$ 13,065	\$ -
Due to other funds	4,972	-	-
Due to other governments	-	-	323,631
Deferred revenue - unavailable	5,648	-	-
Advances from governmental funds	-	106,250	-
	<hr/>	<hr/>	<hr/>
Total Liabilities	\$ 10,620	\$ 119,315	\$ 323,631
	<hr/>	<hr/>	<hr/>
<u>Net Assets</u>			
Net assets, held in trust for pool participants	\$ 140,925	\$ -	
Net assets, held in trust for employees	-	193,984	
	<hr/>	<hr/>	
Total Net Assets	\$ 140,925	\$ 193,984	
	<hr/>	<hr/>	

**WADENA COUNTY
WADENA, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011**

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2011. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Wadena County was established June 11, 1858, 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.

Joint Ventures

The County participates in several joint ventures and a jointly-governed organization as described in Notes 6.B. and 6.C., respectively.

B. Basic Financial Statements

1. Government-Wide Statements

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

**WADENA COUNTY
WADENA, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

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

2. Fund Financial Statements

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

**WADENA COUNTY
WADENA, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

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

The Solid Waste Fund is used to account for activities related to waste management services.

Additionally, the County reports the following fund types:

The Family Service Collaborative Investment Trust Fund accounts for the external pooled and non-pooled investments on behalf of the Family Service Collaborative.

The Health Reimbursement Employee Benefit Trust Fund accounts for resources that are required to be held in trust for the health reimbursement account provided to employees of the County.

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

**WADENA COUNTY
WADENA, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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. Wadena County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. Assets, Liabilities, and Net Assets or Equity

1. 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, 2011, 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 2011 were \$63,537.

2. External Investment Pools

Included in total cash and pooled investments are the assets held for the Wadena County Family Service Collaborative in an external investment pool. For the purposes of financial reporting, the Family Service Collaborative's portion of the County's pool of cash and investments is reported as an investment trust fund. Assets in the pool are reported at fair value based on quoted market prices. The pool is not subject to regulatory oversight, and the fair value of the position in the

**WADENA COUNTY
WADENA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. External Investment Pools (Continued)

pool is the same as the pool shares. Fair value amounts are determined at year-end. The County has not provided or obtained any legally binding guarantees to support the value of 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).

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

No allowance has been made for uncollectible receivables.

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

4. Inventories and Prepaid Items

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

**WADENA COUNTY
WADENA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Restricted Assets

Certain funds of the County are classified as restricted assets on the statement of net assets because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, 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 government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than the capitalization threshold 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 County's capitalization threshold for capital assets is as follows:

<u>Assets</u>	<u>Capitalization Threshold</u>
Land	\$ 1
Land improvements	25,000
Buildings	25,000
Building improvements	25,000
Machinery, furniture, and equipment	10,000
Infrastructure	50,000

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. During the current period, the County did not have any capitalized interest.

**WADENA COUNTY
WADENA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

6. Capital Assets (Continued)

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

<u>Assets</u>	<u>Years</u>
Buildings	25 - 40
Building improvements	40
Public domain infrastructure	15 - 75
Landfill disposal systems	25
Machinery, furniture, and equipment	3 - 10

7. Compensated Absences

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

8. Deferred Revenue

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

**WADENA COUNTY
WADENA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Classification of Fund Balances

In 2011, Wadena County implemented the requirements of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund types.

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

Nonspendable - the nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or 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 - fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

Committed - the committed fund balance classification includes amounts that can be used for the specific purposes imposed by formal action (ordinances or 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 (ordinance or resolution) it employed to previously commit those amounts.

Assigned - amounts in the assigned fund balance classification the County intends to use for specific purposes but 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 that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board or the County Auditor who has been delegated that authority by Board resolution.

**WADENA COUNTY
WADENA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

9. Classification of Fund Balances (Continued)

Unassigned - unassigned fund balance is 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.

The 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.

10. Minimum Fund Balance

Wadena County is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. Wadena County has adopted a minimum fund balance policy to address cash flow or working capital needs. The County is 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 will maintain an unrestricted fund balance level of no less than three months of operating expenditures.

11. Use of Estimates

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

**WADENA COUNTY
WADENA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

12. Reclassifications

Several account balances were reclassified as of and for the year ended December 31, 2010, as previously reported, due to implementation of GASB Statement 54. These reclassifications, which did not require a restatement of net assets or fund balance, were required for comparability to the financial statements as of and for the year ended December 31, 2011. Although comparative statements for 2010 are not presented here, these reclassifications must be considered when comparing the financial statements of this report with those of prior reports.

E. Restatement of Fund Balance

The implementation of GASB Statement 54 required the County to report the Forfeited Tax Sale Special Revenue Fund as part of the General Fund. The Forfeited Tax Sale Special Revenue Fund was previously reported as a nonmajor special revenue fund. The following table summarizes the restatement of fund balance:

	General Fund	Nonmajor Governmental Funds
Fund Balance - January 1, as previously reported	\$ 2,792,316	\$ 195,745
Restatement	(420)	420
Fund Balance - January 1, as restated	\$ 2,791,896	\$ 196,165

F. Potential Impact of New Accounting Standards on Current Period Financial Statements

The GASB has approved GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Application of GASB Statement 63 may restate portions of these financial statements.

**WADENA COUNTY
WADENA, MINNESOTA**

2. Stewardship, Compliance, and Accountability

A. Excess of Expenditures Over Budget

The following individual funds had expenditures in excess of budget for the year ended December 31, 2011.

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
Special Revenue Funds			
Solid Waste	\$ 2,250,501	\$ 1,174,013	\$ 1,076,488
Transit	402,061	150,900	251,161

B. Deficit Fund Equity

The Solid Waste Special Revenue Fund had a deficit fund balance of \$68,175 at December 31, 2011. The deficit will be cleared with the future collections from FEMA for tornado expenditure reimbursements.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

The County's total cash and investments follows:

Governmental activities		
Cash and pooled investments		\$ 7,685,671
Petty cash and change funds		3,390
Fiduciary funds		
Cash and pooled investments		
Investment trust fund		144,060
Employee benefit trust fund		313,299
Agency funds		323,631
Total Cash and Investments		\$ 8,470,051

**WADENA COUNTY
WADENA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2011, the County's deposits were not exposed to custodial credit risk.

**WADENA COUNTY
WADENA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain 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 that is 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.

During the year ended December 31, 2011, the County had no investments.

**WADENA COUNTY
WADENA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2011, for the County's governmental activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 463,984	\$ -
Special assessments	40,599	-
Accounts	107,363	-
Interest	5,910	-
Due from other governments	2,680,045	-
Advances receivable	106,250	-
Total Governmental Activities	\$ 3,404,151	\$ -

3. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 602,357	\$ 2,602	\$ -	\$ 604,959
Construction in progress	391,167	-	391,167	-
Total capital assets not depreciated	\$ 993,524	\$ 2,602	\$ 391,167	\$ 604,959
Capital assets depreciated				
Buildings	\$ 4,558,037	\$ 134,152	\$ 91,295	\$ 4,600,894
Building improvements	142,132	-	-	142,132
Machinery, furniture, and equipment	4,156,626	478,115	406,794	4,227,947
Infrastructure	45,876,310	2,402,892	-	48,279,202
Total capital assets depreciated	\$ 54,733,105	\$ 3,015,159	\$ 498,089	\$ 57,250,175

**WADENA COUNTY
WADENA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Less: accumulated depreciation for				
Buildings	\$ 3,219,108	\$ 102,269	\$ 91,295	\$ 3,230,082
Building improvements	10,660	7,107	-	17,767
Machinery, furniture, and equipment	2,721,567	347,756	406,794	2,662,529
Infrastructure	<u>14,995,152</u>	<u>984,556</u>	<u>-</u>	<u>15,979,708</u>
 Total accumulated depreciation	 <u>\$ 20,946,487</u>	 <u>\$ 1,441,688</u>	 <u>\$ 498,089</u>	 <u>\$ 21,890,086</u>
 Total capital assets depreciated, net	 <u>\$ 33,786,618</u>	 <u>\$ 1,573,471</u>	 <u>\$ -</u>	 <u>\$ 35,360,089</u>
 Governmental Activities				
Capital Assets, Net	<u>\$ 34,780,142</u>	<u>\$ 1,576,073</u>	<u>\$ 391,167</u>	<u>\$ 35,965,048</u>

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

Governmental Activities	
General government	\$ 78,826
Public safety	56,602
Highways and streets, including depreciation of infrastructure assets	1,219,000
Sanitation	56,273
Human services	28,472
Health	<u>2,515</u>
 Total Depreciation Expense - Governmental Activities	 <u>\$ 1,441,688</u>

**WADENA COUNTY
WADENA, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2011, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Road and Bridge	\$ 108
	Social Services	5,602
	Other governmental funds	39
	Investment Trust	8
Total due to General Fund		\$ 5,757
Road and Bridge	General	\$ 540
	Solid Waste	2,796
Total due to Road and Bridge Fund		\$ 3,336
Social Services	General	\$ 3,868
	Other governmental funds	53
	Investment Trust	785
Total due to Social Services Fund		\$ 4,706
Solid Waste	Road and Bridge	\$ 17
Other governmental funds	General	\$ 1,376
	Social Services	2,106
	Solid Waste	51
	Investment Trust	4,179
Total due to other governmental funds		\$ 7,712
Total Due To/From Other Funds		\$ 21,528

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

**WADENA COUNTY
WADENA, MINNESOTA**

3. Detailed Notes on All Funds

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

2. Advances To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Social Services Solid Waste Employee Benefit Trust	\$ 262,500 500,000 52,500
Total advances to General Fund		\$ 815,000
Road and Bridge	Employee Benefit Trust	10,000
Social Services	Employee Benefit Trust	33,750
Solid Waste	Employee Benefit Trust	2,500
Other governmental funds	Employee Benefit Trust	7,500
Total Advances To/From Other Funds		\$ 868,750

Advances were made to the Health Reimbursement Employee Benefit Trust Fund to cover benefit payments until payroll deductions are built up to cover them. The advances will be repaid within the plan year, which ends December 31, 2011. Advances have also been made to the Social Services Special Revenue fund from the General Fund for the County's membership fee to the South Country Health Alliance. The advance will be repaid over time as funds become available for repayment.

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2011, consisted of the following:

Transfers to other governmental funds from General Fund	\$	207,110	Provide funds for County levy
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**WADENA COUNTY
WADENA, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2011, were as follows:

	Governmental Activities
Accounts	\$ 333,375
Salaries	350,349
Contracts payable	38,078
Due to other governments	222,912
Total Payables	\$ 944,714

2. Deferred Revenues

Deferred revenues as of December 31, 2011, for the County's governmental funds are as follows:

	Deferred Unavailable	Deferred Unearned
Governmental Funds		
Taxes	\$ 350,025	\$ -
Special assessments	31,698	-
Intergovernmental revenue	2,115,841	14,331
Charges for services	3,750	-
Other	69,592	-
Total Governmental Funds	\$ 2,570,906	\$ 14,331

3. Health Reimbursement Account

The County is authorized by Minn. Stat. § 471.61 to provide group health insurance to its employees. In October 2004, the County began providing health reimbursement accounts administered by Blue Cross/Blue Shield. For purposes of financial reporting, these health reimbursement accounts are reported as an Employee Benefit Trust Fund.

**WADENA COUNTY
WADENA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Health Reimbursement Account (Continued)

Employees that elect to participate make allotted contributions to the account for the payment of eligible expenses to offset a higher health insurance deductible. Usually, any unused money at the end of the year can be rolled over and applied to the next year's balance. The account balance stays with a terminated and retired employee or eligible dependent and can be used for certain expenses.

As of December 31, 2011, 58 employees had health reimbursement accounts. The County advanced \$106,250 to the Employee Benefit Trust Fund as of December 31, 2011.

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Net OPEB liability	\$ 171,511	\$ 62,715	\$ -	\$ 234,226	\$ -
Compensated absences	810,057	470,018	520,723	759,352	452,489
Total Long-Term Liabilities	<u>\$ 981,568</u>	<u>\$ 532,733</u>	<u>\$ 520,723</u>	<u>\$ 993,578</u>	<u>\$ 452,489</u>

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Wadena 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.

**WADENA COUNTY
WADENA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

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).

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

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

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

**WADENA COUNTY
WADENA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

For all 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 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

**WADENA COUNTY
WADENA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

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 2011:

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, 2011, 2010, and 2009, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
General Employees Retirement Fund	\$ 382,273	\$ 372,211	\$ 358,943
Public Employees Police and Fire Fund	64,384	61,042	59,981
Public Employees Correctional Fund	38,237	38,679	36,232

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

B. Defined Contribution Plan

Three employees of Wadena 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.

**WADENA COUNTY
WADENA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. 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, 2011, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 2,130	\$ 2,130
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description

Wadena 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 Wadena 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 2011, there were 154 participants in the plan, including 8 retirees and 2 spouses.

**WADENA COUNTY
WADENA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial accrued 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	\$	122,960
Interest on net OPEB obligation		7,718
Adjustment to ARC		(10,493)
		(10,493)
Annual OPEB cost (expense)	\$	120,185
Contributions made		(57,470)
		(57,470)
Increase in net OPEB obligation	\$	62,715
Net OPEB Obligation - Beginning of Year		171,511
		171,511
Net OPEB Obligation - End of Year	\$	234,226
		234,226

The County's annual OPEB cost for December 31, 2011, was \$120,185. The percentage of annual OPEB cost contributed to the plan was 47.8 percent, and the net OPEB obligation for 2011 was \$234,226. The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended December 31, 2009, 2010, and 2011, were as follows:

Fiscal Year-End	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2009	\$ 102,604	\$ 51,248	49.9%	\$ 124,408
December 31, 2010	101,763	51,660	50.8	171,511
December 31, 2011	120,185	57,470	47.8	234,226

**WADENA COUNTY
WADENA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB) (Continued)

Funded Status and Funding Progress

As of January 1, 2011, the most recent actuarial valuation date, the plan was 0.0 percent funded. The actuarial accrued liability for benefits was \$875,558, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$875,558. The covered payroll (annual payroll of active employees covered by the plan) was \$6,057,882, and the ratio of the UAAL to the covered payroll was 14.5 percent.

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, will present multi-year trend information as it becomes available about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

**WADENA COUNTY
WADENA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

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 Wadena 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 6 years. Both rates included a 3.0 percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2011, was 26 years.

5. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$450,000 per claim in 2011 and \$460,000 per claim in 2012. 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.

**WADENA COUNTY
WADENA, MINNESOTA**

5. Risk Management (Continued)

The NJPA contracts with Blue Cross/Blue Shield to administer the health insurance plan. All claims are pooled at year-end for the purpose of setting rates and reserves for the upcoming year. The NJPA provides financial risk management services that embody the concept of pooling risk for the purpose of, but not limited to, providing health benefits coverage and other services as directed by the joint powers board. Members do not pay for deficiencies that arise in the current year.

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

The County, in connection with the normal conduct of its affairs, is involved in various judgments, claims, and litigations; it is expected that the final settlement of these matters will not materially affect the financial statements of the County.

B. Joint Ventures

Todd-Wadena Community Corrections

A joint community corrections system was established in 1976, pursuant to Minn. Stat. ch. 401, between Todd and Wadena Counties. The Community Corrections' primary programs and services are to assist member counties in the development, implementation, and operation of correctional programs, probation, and parole.

The management of the Community Corrections is vested in a Joint Powers Board composed of five Commissioners from each participating county. No single member county retains control over the operations or has oversight responsibility for the Community Corrections. The Joint Powers Board appoints an Executive Committee which has been delegated by the Joint Powers Board all powers and duties necessary for the day-to-day operations.

**WADENA COUNTY
WADENA, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Todd-Wadena Community Corrections (Continued)

Separate financial information can be obtained from Todd-Wadena Community Corrections, 239 Central Avenue, Long Prairie, Minnesota 56347.

Northwestern Counties Data Processing Security Association

The Northwestern Counties Data Processing Security Association (NCDPSA) was formed in 1994 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnomon, Marshall, Pennington, Polk, Roseau, and Wadena Counties. The purpose of the NCDPSA is to provide a mechanism whereby the counties may cooperatively provide for a data processing disaster recovery plan and backup system.

Control of the NCDPSA is vested in the NCDPSA Joint Powers Board, which is composed of one County Commissioner from each member county. In the event of dissolution, the net assets of the NCDPSA at that time shall be distributed to the respective member counties in proportion to their contributions.

The NCDPSA has no long-term debt. Financing is provided by grants from the State of Minnesota and appropriations from member counties.

Separate financial information can be obtained from the Clearwater County Auditor, 213 North Main Avenue, Bagley, Minnesota 56621.

West Central Minnesota Drug Task Force

The West Central Minnesota Drug Task Force was established in 1996 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Becker, Clay, Douglas, Grant, Otter Tail, Todd, and Wadena Counties, and the Cities of Alexandria, Breckenridge, Detroit Lakes, Fargo, Fergus Falls, Moorhead, Pelican Rapids, Perham, and Wahpeton. The Task Force's objectives are to detect, investigate, and apprehend controlled substance offenders in the seven-county area.

**WADENA COUNTY
WADENA, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

West Central Minnesota Drug Task Force (Continued)

Control of the Task Force is vested in a Board of Directors. The Board of Directors consists of department heads or a designee from each participating full-time member agency. In the event of dissolution of the Task Force, the equipment will be divided and returned to the appropriate agencies. However, if only one agency terminates its agreement and the unit continues, all equipment will remain with the Task Force.

The Task Force is reported as an agency fund in Douglas County's financial statements. Financing and equipment will be provided by the full-time and associate member agencies.

Wadena County Family Service Collaborative

The Wadena County Family Service Collaborative was established in 1998 under the authority of the Joint Powers Act, pursuant to Minn. Stat. §§ 471.59 and 124D.23. The Collaborative includes Wadena County; Independent School District Nos. 818, 820, 821, 2155, and 2170; the Otter Tail-Wadena Community Action Council; and Todd-Wadena Community Corrections. The purpose of the Collaborative is to provide coordinated family services and to commit resources to an integrated fund.

Control of the Wadena County Family Service Collaborative is vested in a governing board. Wadena County has three members on the Board.

In the event of withdrawal from the Wadena County Family Service Collaborative, the withdrawing party shall give a 180-day notice. The withdrawing party shall remain liable for fiscal obligations incurred prior to the effective date of withdrawal but shall incur no additional fiscal liability beyond the effective date of withdrawal. Upon termination of the Collaborative, all property and remaining funds shall be divided among the remaining members. Distribution shall be determined on the basis of number of years of participation by each member and the proportionate contribution paid pursuant to the agreement of the Collaborative members.

Financing is provided by state grants and appropriations from its members. Wadena County, in an agent capacity, reports the cash transactions of the Wadena County Family Service Collaborative as an investment trust fund on the County's financial statements. During 2011, the County contributed \$1,000 to the Collaborative.

**WADENA COUNTY
WADENA, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Morrison-Todd-Wadena Community Health Services Board

The County Boards of Cass, Morrison, Todd, and Wadena Counties formed a Board of Health in 1977, via a joint powers agreement, for purposes of maintaining an integrated system of community health services under Minn. Stat. ch. 145. On January 1, 2006, Cass County withdrew from the Board of Health, and Morrison County became the new fiscal agent. The full Board of Health is composed of five County Commissioners in each of the three counties. The Board appoints an executive committee of two County Commissioners from each of the three counties. An advisory committee of three representatives from each of the single county advisory committees makes recommendations to the Board of Health throughout the year. An administrative task force of the three public health directors meets on a monthly basis.

The three counties share responsibility to provide secretarial and financial services and to carry out the administrative requirements of the Board of Health. The three public health directors rotate the administrator position each year. During 2011, the County did not contribute to the Health Services Board. Separate financial information is not available.

South Country Health Alliance

The South Country Health Alliance (SCHA) was created by a joint powers agreement between Brown, Dodge, Freeborn, Goodhue, Kanabec, Mower, Sibley, Steele, Wabasha, and Waseca Counties on July 24, 1998, under Minn. Stat. § 471.59. Mower County has since withdrawn. In 2007, Cass, Crow Wing, Morrison, Todd, and Wadena Counties became members. The agreement was in accordance with Minn. Stat. § 256B.692, which allows the formation of a Board of Directors to operate, control, and manage all matters concerning the participating counties' health care functions, referred to as county-based purchasing. In 2011, Cass, Crow Wing, and Freeborn Counties have elected to opt out of the SCHA, consistent with the terms of the Joint Powers Agreement.

**WADENA COUNTY
WADENA, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

South Country Health Alliance (Continued)

The purpose of the SCHA is to improve the social and health outcomes of its clients and all citizens of its member counties by better coordinating social services, public health and medical services, and promoting the achievement of public health goals. The SCHA is authorized to provide prepaid comprehensive health maintenance services to persons enrolled under Medicaid and General Assistance Medical Care in each of the member counties.

Each member county has an explicit and measurable right to its share of the total capital surplus of the SCHA. Gains and losses are allocated annually to all members based on the percentage of their utilization. The County's equity interest in the SCHA at December 31, 2011, was \$796,287. Wadena County's share of the SCHA's net income was \$333,662. The equity interest is reported as an investment in joint venture on the government-wide statement of net assets. Changes in equity are included in the government-wide statement of activities as human services.

Complete financial statements can be obtained from the South Country Health Alliance at 110 West Fremont Street, Owatonna, Minnesota 55060, or from its fiscal agent at 630 Florence Avenue, P. O. Box 890, Owatonna, Minnesota 55060-0890.

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.

**WADENA COUNTY
WADENA, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Central Minnesota Emergency Services Board (Continued)

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 the respective County Board and one City Council member from the city appointed by the 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 they shared in the original expense.

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.

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.

Prairie Lakes Municipal Solid Waste Authority Joint Powers Board

The Prairie Lakes Municipal Solid Waste Authority Joint Powers Board was established in 2010, under the authority conferred upon the member parties by Minn. Stat. §§ 471.59, 115A, and 400, and includes the Counties of Becker, Otter Tail, Todd, and Wadena.

The purpose of the Prairie Lakes Municipal Solid Waste Authority Joint Powers Board is to jointly exercise powers common to each participating party dealing with the ownership and operation of the Perham Resource Recovery Facility, as well as

**WADENA COUNTY
WADENA, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Prairie Lakes Municipal Solid Waste Authority Joint Powers Board (Continued)

cooperation with efforts in other Solid Waste Management activities that affect the operations of the Perham Resource Recovery Facility. The Prairie Lakes Municipal Solid Waste Authority Joint Powers Board is composed of one Commissioner each from Becker, Todd, and Wadena Counties and two members from Otter Tail County. Each party may appoint alternate Board members and shall represent one vote on the Board.

In the event of dissolution of the Prairie Lakes Municipal Solid Waste Authority Joint Powers Board, all assets and liabilities of the Board shall be distributed and/or retired based on the contracted debt obligation of each of the parties of the agreement providing such entity is a party to the agreement at the time of the discharge of assets and liabilities.

Financial information can be obtained from Otter Tail County Solid Waste, 1115 Tower Road N., Fergus Falls, Minnesota 56537.

C. Jointly Governed Organization

Minnesota Counties Computer Cooperative

Under Minnesota Joint Powers Law, Minn. Stat. § 471.59, Minnesota counties have created the Minnesota Counties Computer Cooperative to jointly provide for the establishment, operation, and maintenance of data processing systems, facilities, and management information systems. Wadena County is a member of this organization.

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REQUIRED SUPPLEMENTARY INFORMATION

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**WADENA COUNTY
WADENA, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 4,977,294	\$ 4,977,294	\$ 4,312,992	\$ (664,302)
Licenses and permits	41,535	41,535	53,217	11,682
Intergovernmental	1,004,483	1,004,483	1,458,482	453,999
Charges for services	250,141	250,141	246,173	(3,968)
Fines and forfeits	16,000	16,000	29,843	13,843
Gifts and contributions	-	-	5,700	5,700
Investment earnings	56,000	56,000	62,022	6,022
Miscellaneous	122,388	122,388	449,931	327,543
Total Revenues	\$ 6,467,841	\$ 6,467,841	\$ 6,618,360	\$ 150,519
Expenditures				
Current				
General government				
Commissioners	\$ 135,700	\$ 135,700	\$ 139,589	\$ (3,889)
Courts	5,000	5,000	-	5,000
Coordinator	8,000	8,000	-	8,000
County auditor/treasurer	560,285	560,285	573,674	(13,389)
County assessor	372,894	372,894	325,031	47,863
Elections	-	-	5,614	(5,614)
Voter registration	550	550	80	470
Data processing	346,006	347,806	371,775	(23,969)
Central services	141,250	141,250	92,131	49,119
Help America Vote Act	6,000	6,000	-	6,000
Attorney	271,731	271,731	254,961	16,770
Law library	19,300	19,300	23,909	(4,609)
Contracted legal services	63,425	63,425	76,375	(12,950)
Recorder	161,975	161,975	207,467	(45,492)
Planning and zoning	169,089	129,089	129,750	(661)
Geographic information system and global positioning system	62,187	62,187	65,741	(3,554)
County buildings	155,875	155,875	70,138	85,737
Buildings and plant	409,844	409,844	351,862	57,982
Veterans service officer	52,403	52,403	55,966	(3,563)
Other general government	-	-	150	(150)
Unallocated	630,955	630,955	221,536	409,419
Total general government	\$ 3,572,469	\$ 3,534,269	\$ 2,965,749	\$ 568,520

**WADENA COUNTY
WADENA, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 1,369,170	\$ 1,419,378	\$ 1,523,143	\$ (103,765)
Boat and water safety	4,354	4,354	4,811	(457)
Sheriff's forfeiture	-	-	7,751	(7,751)
Coroner	26,000	26,000	21,037	4,963
ATV grant	5,235	5,235	6,955	(1,720)
E-911 system	25,303	25,303	43,312	(18,009)
Law enforcement center	317,211	267,003	194,255	72,748
Community corrections	151,229	151,229	151,229	-
Civil defense	116,995	116,995	122,135	(5,140)
County safety program	8,393	8,393	6,647	1,746
Total public safety	\$ 2,023,890	\$ 2,023,890	\$ 2,081,275	\$ (57,385)
Culture and recreation				
Historical society	\$ 4,000	\$ 4,000	\$ 4,000	\$ -
Parks	36,106	36,106	36,667	(561)
Humane society	600	600	600	-
Regional library	89,025	89,025	90,587	(1,562)
Snowmobile trails	65,000	65,000	41,593	23,407
Total culture and recreation	\$ 194,731	\$ 194,731	\$ 173,447	\$ 21,284
Conservation of natural resources				
County extension	\$ 121,301	\$ 121,301	\$ 121,559	\$ (258)
Soil and water conservation	48,340	48,340	72,267	(23,927)
Agricultural inspection	15,000	15,000	22,575	(7,575)
Agricultural society/County fair	28,000	28,000	224,399	(196,399)
Tree planting	7,000	7,000	1,800	5,200
Forfeited tax	-	-	57,068	(57,068)
Total conservation of natural resources	\$ 219,641	\$ 219,641	\$ 499,668	\$ (280,027)
Total Expenditures	\$ 6,010,731	\$ 5,972,531	\$ 5,720,139	\$ 252,392

**WADENA COUNTY
WADENA, MINNESOTA**

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

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Excess of Revenues Over (Under)				
Expenditures	\$ 457,110	\$ 495,310	\$ 898,221	\$ 402,911
Other Financing Sources (Uses)				
Transfers out	(457,110)	(457,110)	(207,110)	250,000
Net Change in Fund Balance	\$ -	\$ 38,200	\$ 691,111	\$ 652,911
Fund Balance - January 1, as restated (Note 1.E.)	<u>2,791,896</u>	<u>2,791,896</u>	<u>2,791,896</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 2,791,896</u>	<u>\$ 2,830,096</u>	<u>\$ 3,483,007</u>	<u>\$ 652,911</u>

**WADENA COUNTY
WADENA, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,367,743	\$ 1,367,743	\$ 1,211,878	\$ (155,865)
Intergovernmental	3,626,000	3,626,000	3,210,398	(415,602)
Miscellaneous	35,000	35,000	79,021	44,021
Total Revenues	\$ 5,028,743	\$ 5,028,743	\$ 4,501,297	\$ (527,446)
Expenditures				
Current				
Highways and streets				
Administration	\$ 346,804	\$ 346,804	\$ 325,721	\$ 21,083
Maintenance	1,375,424	1,409,391	1,389,331	20,060
Construction	2,792,349	2,792,349	2,033,064	759,285
Equipment maintenance and shop	246,815	246,815	255,431	(8,616)
Total highways and streets	\$ 4,761,392	\$ 4,795,359	\$ 4,003,547	\$ 791,812
Intergovernmental	155,000	155,000	168,101	(13,101)
Total Expenditures	\$ 4,916,392	\$ 4,950,359	\$ 4,171,648	\$ 778,711
Net Change in Fund Balance	\$ 112,351	\$ 78,384	\$ 329,649	\$ 251,265
Fund Balance - January 1	1,617,530	1,617,530	1,617,530	-
Increase (decrease) in inventories	-	-	26,047	26,047
Fund Balance - December 31	\$ 1,729,881	\$ 1,695,914	\$ 1,973,226	\$ 277,312

**WADENA COUNTY
WADENA, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,726,038	\$ 1,726,038	\$ 1,528,054	\$ (197,984)
Intergovernmental	2,857,136	2,857,136	2,850,256	(6,880)
Miscellaneous	631,255	631,255	1,105,247	473,992
Total Revenues	\$ 5,214,429	\$ 5,214,429	\$ 5,483,557	\$ 269,128
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,474,159	\$ 1,474,159	\$ 1,525,221	\$ (51,062)
Social services	3,740,270	3,740,270	3,540,715	199,555
Total Expenditures	\$ 5,214,429	\$ 5,214,429	\$ 5,065,936	\$ 148,493
Net Change in Fund Balance	\$ -	\$ -	\$ 417,621	\$ 417,621
Fund Balance - January 1	1,639,653	1,639,653	1,639,653	-
Fund Balance - December 31	\$ 1,639,653	\$ 1,639,653	\$ 2,057,274	\$ 417,621

**WADENA COUNTY
WADENA, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 10,000	\$ 10,000	\$ 20,049	\$ 10,049
Special assessments	440,000	440,000	393,399	(46,601)
Licenses and permits	350	350	200	(150)
Intergovernmental	61,825	61,825	151,823	89,998
Charges for services	638,500	638,500	995,770	357,270
Miscellaneous	2,500	2,500	33,012	30,512
Total Revenues	\$ 1,153,175	\$ 1,153,175	\$ 1,594,253	\$ 441,078
Expenditures				
Current				
Sanitation				
Solid waste	\$ 957,023	\$ 957,023	\$ 2,018,657	\$ (1,061,634)
Recycling	216,990	216,990	231,844	(14,854)
Total Expenditures	\$ 1,174,013	\$ 1,174,013	\$ 2,250,501	\$ (1,076,488)
Net Change in Fund Balance	\$ (20,838)	\$ (20,838)	\$ (656,248)	\$ (635,410)
Fund Balance - January 1	588,073	588,073	588,073	-
Fund Balance - December 31	\$ 567,235	\$ 567,235	\$ (68,175)	\$ (635,410)

**WADENA COUNTY
WADENA, MINNESOTA**

EXHIBIT A-5

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2011**

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, 2008	\$ -	\$ 744,542	\$ 744,542	0.0%	\$ 5,568,072	13.4%
January 1, 2011	-	875,558	875,558	0.0	6,057,882	14.5

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**WADENA COUNTY
WADENA, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2011**

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year-end.

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

The appropriated budget is prepared by fund, function, and department. Wadena County's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (that is, the level at which expenditures may not legally exceed appropriations) is the fund level. During the year, the Board made budgetary amendments in the General Fund, Road and Bridge Special Revenue Fund, Social Services Special Revenue Fund, and the Public Health Nurse Special Revenue Fund.

2. Excess of Expenditures Over Budget

For the year ended December 31, 2011, the Solid Waste Special Revenue Fund had expenditures in excess of budget of \$1,076,488.

3. Other Postemployment Benefits Funded Status

The County implemented the requirements of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for the fiscal year ended December 31, 2011. Currently, only two year's worth of data is available. Future reports will provide additional trend analysis to meet the three-year funding status requirements as the information becomes available.

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

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SUPPLEMENTARY INFORMATION

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**WADENA COUNTY
WADENA, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Public Health Nurse Fund - to account for the operations of the County Health Department. Financing is provided from user charges, various state and federal grants, and an appropriation from the General Fund.

Transit Fund - to account for the operations of the County Transit Department. Financing is provided from user charges, state and federal grants, and interest on investments.

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**WADENA COUNTY
WADENA, MINNESOTA**

EXHIBIT B-1

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2011**

	Public Health Nurse	Transit	Total (Exhibit 3)
<u>Assets</u>			
Cash and pooled investments	\$ 148,115	\$ 101,508	\$ 249,623
Petty cash and change funds	40	100	140
Accounts receivable	3,790	2,845	6,635
Accrued interest receivable	-	23	23
Due from other funds	7,712	-	7,712
Due from other governments	151,292	55,456	206,748
Advance to other funds	7,500	-	7,500
Total Assets	\$ 318,449	\$ 159,932	\$ 478,381
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 9,872	\$ 1,456	\$ 11,328
Salaries payable	40,639	8,912	49,551
Due to other funds	-	92	92
Due to other governments	3,670	203	3,873
Deferred revenue - unavailable	63,390	31,488	94,878
Deferred revenue - unearned	-	14,331	14,331
Total Liabilities	\$ 117,571	\$ 56,482	\$ 174,053
Fund Balances			
Nonspendable			
Advances to other funds	\$ 7,500	\$ -	\$ 7,500
Assigned			
Public health	193,378	-	193,378
Transit	-	103,450	103,450
Total Fund Balances	\$ 200,878	\$ 103,450	\$ 304,328
Total Liabilities and Fund Balances	\$ 318,449	\$ 159,932	\$ 478,381

**WADENA COUNTY
WADENA, MINNESOTA**

EXHIBIT B-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Public Health Nurse	Transit	Total (Exhibit 5)
Revenues			
Licenses and permits	\$ 20,679	\$ -	\$ 20,679
Intergovernmental	695,063	396,807	1,091,870
Charges for services	242,892	49,578	292,470
Gifts and contributions	-	1,000	1,000
Investment earnings	-	290	290
Miscellaneous	32,224	21,194	53,418
	\$ 990,858	\$ 468,869	\$ 1,459,727
Expenditures			
Current			
Human services	\$ -	\$ 402,061	\$ 402,061
Health	1,156,613	-	1,156,613
	\$ 1,156,613	\$ 402,061	\$ 1,558,674
Excess of Revenues Over (Under) Expenditures	\$ (165,755)	\$ 66,808	\$ (98,947)
Other Financing Sources (Uses)			
Transfers in	207,110	-	207,110
	\$ 41,355	\$ 66,808	\$ 108,163
Net Change in Fund Balance	\$ 41,355	\$ 66,808	\$ 108,163
Fund Balance - January 1, as restated (Note 1.E.)	159,523	36,642	196,165
Fund Balance - December 31	\$ 200,878	\$ 103,450	\$ 304,328

**WADENA COUNTY
WADENA, MINNESOTA**

EXHIBIT C-1

**BUDGETARY COMPARISON SCHEDULE
PUBLIC HEALTH NURSE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Licenses and permits	\$ 21,985	\$ 21,985	\$ 20,679	\$ (1,306)
Intergovernmental	695,649	685,086	695,063	9,977
Charges for services	272,466	272,466	242,892	(29,574)
Miscellaneous	53,355	53,355	32,224	(21,131)
Total Revenues	\$ 1,043,455	\$ 1,032,892	\$ 990,858	\$ (42,034)
Expenditures				
Current				
Health				
Nursing service	1,210,962	1,210,962	1,156,613	54,349
Excess of Revenues Over (Under)				
Expenditures	\$ (167,507)	\$ (178,070)	\$ (165,755)	\$ 12,315
Other Financing Sources (Uses)				
Transfers in	207,110	207,110	207,110	-
Net Change in Fund Balance	\$ 39,603	\$ 29,040	\$ 41,355	\$ 12,315
Fund Balance - January 1	159,523	159,523	159,523	-
Fund Balance - December 31	\$ 199,126	\$ 188,563	\$ 200,878	\$ 12,315

**WADENA COUNTY
WADENA, MINNESOTA**

EXHIBIT C-2

**BUDGETARY COMPARISON SCHEDULE
TRANSIT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ -	\$ -	\$ 396,807	\$ 396,807
Charges for services	52,000	52,000	49,578	(2,422)
Gifts and contributions	-	-	1,000	1,000
Investment earnings	-	-	290	290
Miscellaneous	-	-	21,194	21,194
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenues	\$ 52,000	\$ 52,000	\$ 468,869	\$ 416,869
Expenditures				
Current				
Human services				
Transportation	150,900	150,900	402,061	(251,161)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net Change in Fund Balance	\$ (98,900)	\$ (98,900)	\$ 66,808	\$ 165,708
Fund Balance - January 1	36,642	36,642	36,642	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Balance - December 31	\$ (62,258)	\$ (62,258)	\$ 103,450	\$ 165,708
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

**WADENA COUNTY
WADENA, MINNESOTA**

FIDUCIARY FUNDS

AGENCY FUNDS

Governmental Fund - to account for the collection and remittance of fines and fees collected by the County court as well as other miscellaneous funds due to other governments.

Taxes and Penalties Fund - to account for the collection of taxes and their apportionment or transfer to the various funds and taxing districts.

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**WADENA COUNTY
WADENA, MINNESOTA**

EXHIBIT D-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Balance January 1	Additions	Deductions	Balance December 31
<u>GOVERNMENTAL (80)</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>11,267</u>	\$ <u>71,512</u>	\$ <u>54,932</u>	\$ <u>27,847</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>11,267</u>	\$ <u>71,512</u>	\$ <u>54,932</u>	\$ <u>27,847</u>
 <u>TAXES AND PENALTIES (82)</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>155,039</u>	\$ <u>6,553,570</u>	\$ <u>6,412,825</u>	\$ <u>295,784</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>155,039</u>	\$ <u>6,553,570</u>	\$ <u>6,412,825</u>	\$ <u>295,784</u>
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>166,306</u>	\$ <u>6,625,082</u>	\$ <u>6,467,757</u>	\$ <u>323,631</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>166,306</u>	\$ <u>6,625,082</u>	\$ <u>6,467,757</u>	\$ <u>323,631</u>

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OTHER SCHEDULES

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**WADENA COUNTY
WADENA, MINNESOTA**

EXHIBIT E-1

**SCHEDULE OF DEPOSITS AND INVESTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Number</u>	<u>Interest Rate (%)</u>	<u>Maturity Dates</u>	<u>Fair Value</u>
Cash and Pooled Investments				
Cash on hand and departmental checking	N/A	N/A	Continuous	\$ 3,390
Checking accounts - interest-bearing	Two	0.10 to 0.25	Continuous	655,752
Money market savings	Seven	0.25 to 0.65	Continuous	5,460,908
Certificates of deposit	Nine	0.85 to 1.80	April 17, 2012 to June 15, 2013	<u>2,350,000</u>
Total Deposits and Investments				<u>\$ 8,470,050</u>

**WADENA COUNTY
WADENA, MINNESOTA**

EXHIBIT E-2

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Shared Revenue

State

Highway users tax	\$ 2,911,955
County program aid	791,320
PERA rate reimbursement	20,825
Disparity reduction aid	53,185
Police aid	52,663
Enhanced 911	87,364
Market value credit	676,896
Mobile home market value credit	1,645

Total shared revenue **\$ 4,595,853**

Reimbursement for Services

Minnesota Department of Human Services	<u>\$ 541,623</u>
--	--------------------------

Payments

Local

Local contributions	\$ 1,500
Payments in lieu of taxes	55,591

Total payments **\$ 57,091**

Grants

State

Minnesota Department/Board of	
Public Safety	\$ 35,911
Transportation	224,577
Health	140,010
Natural Resources	82,160
Human Services	733,493
Water and Soil Resources	22,840
Veterans Affairs	2,800
Pollution Control Agency	55,950
Peace Officer Standards and Training Board	3,030

Total state **\$ 1,300,771**

Federal

Department of/Agency	
Agriculture	\$ 190,804
Commerce	30,507
Transportation	182,942
Health and Human Services	1,743,455
Homeland Security	119,783

Total federal **\$ 2,267,491**

Total state and federal grants **\$ 3,568,262**

Total Intergovernmental Revenue **\$ 8,762,829**

**WADENA COUNTY
WADENA, MINNESOTA**

EXHIBIT E-3

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health and Morrison-Todd-Wadena Community Health Services Board Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 82,996
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	<u>116,715</u>
Total U.S. Department of Agriculture		<u>\$ 199,711</u>
U.S. Department of Commerce		
Passed Through Minnesota Department of Public Safety and Central Minnesota Emergency Services Board Public Safety Interoperable Communications Grant Program	11.555	<u>\$ 30,507</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Formula Grants for Other Than Urbanized Areas	20.509	\$ 160,860
Passed Through Minnesota Department of Public Safety Highway Safety Cluster State and Community Highway Safety	20.600	4,789
Occupant Protection Incentive Grants	20.602	827
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	<u>5,096</u>
Total U.S. Department of Transportation		<u>\$ 171,572</u>
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Health and Central Minnesota Council on Aging Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	\$ 5,661
Passed Through Minnesota Department of Health and Morrison-Todd-Wadena Community Health Services Board Public Health Emergency Preparedness	93.069	28,983
Passed Through Community Health Information Collaborative of Duluth Immunization Cluster Immunization Cooperative Agreement	93.268	4,840
Direct Drug-Free Communities Support Program Grants	93.276	154,304
Passed Through Minnesota Department of Health and Isanti County Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	468

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

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**WADENA COUNTY
WADENA, MINNESOTA**

**EXHIBIT E-3
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services (Continued)		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	13,226
Temporary Assistance for Needy Families Cluster		
Temporary Assistance for Needy Families	93.558	281,254
Emergency Contingency Fund for Temporary Assistance for Needy Families		
State Program - ARRA	93.714	2,303
Child Support Enforcement	93.563	255,055
Refugee and Entrant Assistance - State-Administered Programs	93.566	21
Child Care and Development Fund Cluster		
Child Care and Development Block Grant	93.575	2,846
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	3,641
Foster Care Title IV-E Cluster		
Foster Care Title IV-E	93.658	67,208
Foster Care Title IV-E - ARRA	93.658	407
Social Services Block Grant	93.667	121,791
Chafee Foster Care Independence Program	93.674	1,428
Children's Health Insurance Program	93.767	52
Medical Assistance Program	93.778	493,639
Block Grants for Community Mental Health Services	93.958	5,421
Block Grants for Prevention and Treatment of Substance Abuse	93.959	188,284
Passed Through Minnesota Department of Health and Morrison-Todd-Wadena Community Health Services Board		
Temporary Assistance for Needy Families Cluster		
Temporary Assistance for Needy Families	93.558	36,930
Maternal and Child Health Services Block Grant to the States	93.994	23,852
Immunization Cluster		
Immunization - ARRA	93.712	3,728
Medical Assistance Program	93.778	51,847
Total U.S. Department of Health and Human Services		\$ 1,747,189
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	\$ 641
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	720,493
Emergency Management Performance Grants	97.042	15,665
Homeland Security Grant Program	97.067	42,891
Total U.S. Department of Homeland Security		\$ 779,690
Total Federal Awards		\$ 2,928,669

**WADENA COUNTY
WADENA, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Wadena County under programs of the federal government for the year ended December 31, 2011. 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 Wadena County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Wadena 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. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Highway Safety Cluster	\$	5,616
Immunization Cluster		8,568
Temporary Assistance for Needy Families		320,487
Child Care and Development Cluster		6,487
Foster Care Title IV-E Cluster		67,615

**WADENA COUNTY
WADENA, MINNESOTA**

5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$	2,267,491
Grants received more than 60 days after year-end, deferred in 2011		
Special Supplemental Nutrition Program for Women, Infants, and Children		32,131
Highway Planning and Construction - ARRA		24,695
Formula Grants for Other Than Urbanized Areas		31,488
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers		1,265
Temporary Assistance for Needy Families		3,429
Medical Assistance Program		17,080
Disaster Grants - Public Assistance (Presidentially Declared Disasters)		728,482
Emergency Management Performance Grants		15,665
Grants deferred in 2010, recognized as revenue in 2011		
Special Supplemental Nutrition Program for Women, Infants, and Children		(23,224)
Highway Planning and Construction - ARRA		(24,695)
Formula Grants for Other Than Urbanized Areas		(42,858)
Immunization Grants		(738)
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers		(1,603)
Child Support Enforcement		(14,126)
Child Care Mandatory and Matching Funds of the Child Care and Development Fund		(1,224)
Foster Care Title IV-E		(349)
Disaster Grants - Public Assistance (Presidentially Declared Disasters) overpayment of grant money owed back to Homeland Security and Emergency Management		(84,240)
Expenditures per Schedule of Expenditures of Federal Awards	\$	2,928,669

6. Subrecipients

During 2011, the County did not pass any federal money to subrecipients.

7. American Recovery and Reinvestment Act

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

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**WADENA COUNTY
WADENA, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

- Material weaknesses identified? **No**
- 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: **Unqualified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **No**

The major programs are:

State Administrative Matching Grants for SNAP	CFDA #10.561
Temporary Assistance for Needy Families Cluster	
Temporary Assistance for Needy Families	CFDA #93.558
Emergency Contingency Fund for Temporary Assistance for Needy Families State Program - ARRA	CFDA #93.714
Child Support Enforcement	CFDA #93.563
Social Services Block Grant	CFDA #93.667
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	CFDA #97.036

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

Wadena County qualified as low-risk auditee? **No**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

98-1 Departmental Segregation of Duties

Criteria: Management is responsible for establishing and maintaining internal control. Adequate segregation of duties is a key internal control in preventing and detecting errors or irregularities. To protect County assets, proper segregation of the record keeping, custody, and authorization functions should be in place, and where management decides segregation of duties may not be cost effective, compensating controls should be in place.

Condition: Due to the limited number of personnel within several Wadena County offices, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. The smaller fee offices generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts.

Context: This is not unusual in operations the size of Wadena County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

Effect: Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in a timely period by employees in the normal course of performing their assigned functions.

Cause: The size of Wadena County and its staffing limits the internal control that management can design and implement into the organization.

Recommendation: We recommend Wadena County's elected officials and management be mindful that limited staffing increases the risks in safeguarding the County's assets and the proper recording of its financial activity and, where possible, implement oversight procedures to ensure that internal control policies and procedures are being followed by staff.

Client's Response:

The Wadena County Board has been made aware of the lack of segregation of the accounting functions and, where possible, has developed and will continue to update and implement oversight procedures to ensure adequate internal control policies and procedures over cash, receivables, and other items.

ITEM ARISING THIS YEAR

11-1 Board-Approved Budget

Criteria: Wadena County's budget policy as adopted within the Capital Asset/GASB 34 Compliance Policies provides that the County budget be adopted annually by the County Board and that this budget provides the authorization for departmental expenditures. Once adopted, any changes or adjustments are approved by the Board and are reflected in the minutes.

Condition: The detailed budget spreadsheet presented to the County Board for approval includes amounts for the Transit Special Revenue Fund in the total budget amount; however this spreadsheet did not have any line item amounts for the Transit Special Revenue Fund, so the detail does not add to the total budget amount. Additionally, the General Fund budget was adjusted by \$40,000 to correct an error in the Zoning Department's budget without presenting the change to the County Board for approval.

Context: With the detail missing for the Transit Special Revenue Fund, it is unclear if the County Board intended to approve the amounts specific to the Transit Special Revenue Fund. The error in the budget request for the Zoning Department was noticed after the County Board approved the budget. The County Auditor/Treasurer made an adjustment to the budget in the County financial system to correct the error, not realizing the change to the budget should have been presented to the Board for approval to comply with County policy.

Effect: It is unclear if the County Board intended to approve the amounts and therefore authorize expenditures specific to the Transit Special Revenue Fund. Final budget in the County financial system does not match the County Board-approved budget.

Cause: Data entry errors in the detailed budget spreadsheet presented to the County Board for approval.

Recommendation: We recommend a detailed review of the detailed budget spreadsheet be presented to the County Board for approval for all future annual budgets. We further recommend all changes or adjustments to the original budget be presented to the County Board for approval as provided by the County budget policy prior to making the change or adjustment in the County financial system.

Client's Response:

The Wadena County Auditor/Treasurer and staff will conduct a detailed review of all budget documents, including the budget spreadsheet presented to the County Board for approval for all future budgets and budget amendments. The Wadena County Auditor/Treasurer will also ensure all changes or adjustments to the original County budget be presented to the County Board for approval as provided by the County budget policy prior to making the change or adjustment in the County financial system.

PREVIOUSLY REPORTED ITEMS RESOLVED

Preparation of Financial Statements (06-1)

The County needed to broaden its participation in the preparation of its financial statements and not rely so extensively on its external auditors for financial reporting.

Resolution

The County provides a general ledger, accruals, and other supporting schedules necessary for preparing fund level and government-wide financial statements. The County has improved its understanding and preparation of underlying accounting data used in the preparation of the financial statements.

Audit Adjustment (06-2)

During the 2010 audit, we identified an adjustment in the Road and Bridge Special Revenue Fund to reclassify \$327,984 regular Highway Planning and Construction federal revenue as Highway Planning and Construction American Recovery and Reinvestment Act federal revenue.

Resolution

No material audit adjustments were necessary during the 2011 audit.

Road and Bridge Inventory (08-3)

During our audit of the road and bridge inventory, we noted several errors in the Inventory of Supplies and Materials Report, resulting in an overstatement of \$6,717.

Resolution

For 2011, we noted only one item with a minor difference in the Inventory of Supplies and Materials Report. The Highway Accountant has reviewed and corrected all significant issues noted in previous reports.

Schedule of Expenditures of Federal Awards (10-1)

The County needed to improve its system of identifying federal award information to facilitate preparation of the Schedule of Expenditures of Federal Awards (SEFA).

Resolution

The County has improved its system of identifying federal award information to provide sufficient information for the preparation of the SEFA.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEMS ARISING THIS YEAR

11-2 Supervisory Review Over Reporting

Programs: Temporary Assistance for Needy Families (TANF) (CFDA No. 93.558), Emergency Contingency Fund for TANF State Program - ARRA (CFDA No. 93.714), State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.561), and Child Support Enforcement (CFDA No. 93.563).

Criteria: Standard internal control procedures should include a review process of the reports submitted for reimbursement of program expenditures to ensure accurate and timely reporting.

Condition: During our testing of controls over TANF, SNAP, and Child Support Enforcement, we noted no documented review process over reporting of expenditures on the Department of Human Services 2902, 2550, and 2556 quarterly reports.

Questioned Costs: None.

Context: The Social Services Accounting Supervisor prepares the reports for reimbursement of the program and administrative costs based on expenditures posted to the County's general ledger and other records. These expenditures were approved by the respective department supervisors and the Board prior to payment; however, there is no documentation of a review of the reports submitted for reimbursement to the granting agencies to ensure they reconcile and are submitted timely.

Effect: Without formal documentation of a review of the reports, there is no assurance the reviews are being completed as intended, which may increase the risk that the reports could contain errors and may not be submitted timely.

Cause: The County does not have a procedure in place to ensure that reports are reviewed and approved.

Recommendation: We recommend Wadena County establish a review process for all reports submitted to granting agencies for reimbursement. The review of reports should be documented and the documentation should be retained in accordance with the County record retention schedule.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Social Services Accounting Supervisor

Corrective Action Planned:

Wadena County has established a review process for all reports submitted to granting agencies for reimbursement. The review and signing of reports are being done by the Social Services Director which will be documented and the documentation will be retained in accordance with the County record retention schedule.

Anticipated Completion Date:

January 1, 2012

11-3 Income Maintenance DHS 2550 Reporting

Programs: State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.561), Temporary Assistance for Needy Families (TANF) (CFDA No. 93.558), and Child Support Enforcement (CFDA No. 93.563).

Criteria: Standard internal control procedures should include timely communication of all necessary information and a review process of the reports submitted to the Minnesota Department of Human Services for reimbursement of program expenditures to ensure accurate and timely reporting.

Condition: During our testing of DHS 2550 quarterly reports, we noted expenses for an employee reported as an Income Maintenance Random Moments Time Study (IMRMS) employee under Section A of the report that should not have been reported under this section, since the employee was not an IMRMS participant at the time of the report. This employee's salary and benefits were reported under Section A for part of quarter one and all of quarter two. The employee was not an IMRMS participant until quarter three of 2011.

Questioned Costs: None.

Context: Section A of the DHS-2550 is where the client is to report the quarter's IMRMS salary and benefits. Employees posted to these accounts are those that have been reported as participating in the IMRMS by the IMRMS Coordinator.

Effect: All eligible expenditures were reported on the DHS -2550 quarterly reports for 2011; however, reporting the employee in the incorrect section resulted in the County receiving less federal administrative aid than they were entitled to.

Cause: When the employee was promoted, the Accounting Supervisor changed the account that this employee's salary and benefits were posted to reflect the new duties, which generally are the duties of employees included in the IMRMS. Although the duties had changed, the employee had not participated in the IMRMS until the third quarter and, therefore, should have been reported in Section A until the third quarter of 2011. Procedures are not currently in place for the IMRMS Coordinator to provide the Accounting Supervisor with copies of the employee data base to ensure employees are participating in the IMRMS before coding them for reporting in Section A of the DHS-2550.

Recommendation: We recommend the IMRMS Coordinator provide the Accounting Supervisor with copies of the employee data base to ensure employees are participating in the IMRMS before coding them for reporting in Section A of the DHS-2550 quarterly report. We further recommend Wadena County carefully review the information reported on the DHS-2550 quarterly reports to ensure that the amounts are correctly reported and are accurate.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

IMRMS Coordinator and Social Services Accounting Supervisor

Corrective Action Planned:

The Social Services IMRMS Coordinator will provide the Social Services Accounting Supervisor with copies of the employee data base so they can be charged as overhead until they are added in the IMRMS to ensure employees are participating in the IMRMS before coding them for reporting in Section A of the DHS-2550 quarterly report. Wadena County will carefully review the information reported on the DHS-2550 quarterly reports to ensure that the amounts are correctly reported and are accurate.

Anticipated Completion Date:

January 1, 2013

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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*

Board of County Commissioners
Wadena County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wadena County as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 14, 2012. 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.

Internal Control Over Financial Reporting

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

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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as items 98-1 and 11-1, that we consider to be significant deficiencies in internal control over financial reporting. 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.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in public indebtedness because Wadena County has no long-term debt other than other postemployment benefits and compensated absences, and tax increment financing because the County does not have tax increment financing districts.

The results of our tests indicate that for the items tested, Wadena County complied with the material terms and conditions of applicable legal provisions.

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

December 14, 2012

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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

Independent Auditor's Report

Board of County Commissioners
Wadena County

Compliance

We have audited Wadena County's compliance of 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 its major federal programs for the year ended December 31, 2011. Wadena County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Wadena County complied, in all material respects, with the 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, 2011.

Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as items 11-2 and 11-3. 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 attention by those charged with governance.

Wadena County's corrective action plans to the federal award findings identified in our audit are included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's corrective action plans and, accordingly, we express no opinion on them.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

December 14, 2012

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR