

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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**WADENA COUNTY**  
**WADENA, MINNESOTA**

**YEAR ENDED DECEMBER 31, 2012**

## **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.

Office of the State Auditor  
525 Park Street, Suite 500  
Saint Paul, Minnesota 55103  
(651) 296-2551  
state.auditor@osa.state.mn.us  
www.auditor.state.mn.us

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**WADENA COUNTY  
WADENA, MINNESOTA**

**Year Ended December 31, 2012**



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

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**WADENA COUNTY  
WADENA, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
<b>Introductory Section</b>		
Organization		1
<b>Financial Section</b>		
Independent Auditor's Report		2
Management's Discussion and Analysis		5
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Position - Governmental Activities	1	12
Statement of Activities	2	13
Fund Financial Statements		
Governmental Funds		
Balance Sheet	3	14
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position--Governmental Activities	4	16
Statement of Revenues, Expenditures, and Changes in Fund Balance	5	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	6	18
Fiduciary Funds		
Statement of Fiduciary Net Position	7	19
Statement of Changes in Fiduciary Net Position	8	20
Notes to the Financial Statements		21
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	A-1	53
Road and Bridge Special Revenue Fund	A-2	56
Social Services Special Revenue Fund	A-3	57
Schedule of Funding Progress - Other Postemployment Benefits	A-4	58
Notes to the Required Supplementary Information		59

**WADENA COUNTY  
WADENA, MINNESOTA**

TABLE OF CONTENTS

	Exhibit	Page
<b>Financial Section (Continued)</b>		
Supplementary Information		
Nonmajor Governmental Funds		60
Nonmajor Special Revenue Funds		
Combining Balance Sheet	B-1	61
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	B-2	62
Budgetary Comparison Schedules		
Public Health Nurse Special Revenue Fund	C-1	63
Transit Special Revenue Fund	C-2	64
Solid Waste Special Revenue Fund	C-3	65
Fiduciary Funds		66
Combining Statement of Changes in Assets and Liabilities - All Agency Funds	D-1	67
Other Schedules		
Schedule of Deposits and Investments	E-1	68
Schedule of Intergovernmental Revenue	E-2	69
Schedule of Expenditures of Federal Awards	E-3	70
Notes to the Schedule of Expenditures of Federal Awards		72
<b>Management and Compliance Section</b>		
Schedule of Findings and Questioned Costs		74
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		82
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance		85



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**WADENA COUNTY  
WADENA, MINNESOTA**

ORGANIZATION  
DECEMBER 31, 2012

Office	Name	District	Term Expires
<b>Elected</b>			
<b>Commissioners</b>			
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
<b>Appointed</b>			
Assessor	Lee Brekke		December 2016
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 2014

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
state.auditor@state.mn.us (E-mail)  
1-800-627-3529 (Relay Service)

### INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Wadena County

#### Report on the Financial Statements

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, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal

control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Wadena County as of December 31, 2012, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Wadena County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2013, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Wadena County's internal control over financial reporting and compliance.

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

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

September 30, 2013

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**WADENA COUNTY  
WADENA, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2012  
(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, 2012. 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 \$48,662,321 at the close of 2012. Of this amount, \$9,315,906 (unrestricted net position) may be used to meet Wadena County's ongoing obligations to citizens and creditors.
- At the close of 2012, Wadena County's governmental funds reported combined ending fund balances of \$9,570,525, an increase of \$1,820,865 in comparison with the prior year. Of the total fund balance, \$7,664,850 is available for spending at the County's discretion and is noted as committed, assigned, and unassigned fund balance.
- At the close of 2012, the committed, assigned, and unassigned fund balance for the General Fund was \$3,119,542, or 56.9 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 Position presents information on all of Wadena County's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 and Social Services Special Revenue Fund, all of which are considered to be major funds. Data from the other three 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 position and a statement of changes in fiduciary net position. 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 schedules have been provided as required supplemental information for the County's major funds. Wadena County also budgets for the Solid Waste Special Revenue Fund, Public Health Special Revenue Fund and Transit Special Revenue Fund, which are nonmajor funds, as supplemental information.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Over time, net position serves as a useful indicator of the County's financial position. Wadena County's assets exceeded liabilities by \$48,662,321 at the close of 2012. The largest portion of Wadena County's net position (76 percent) reflects its net investment in capital assets (land, infrastructure, buildings, and equipment). However, it should be noted that these assets are not available for future spending.

**Governmental Activities  
Governmental Net Position**

	2012	2011
Current and other assets	\$ 13,882,560	\$ 12,076,398
Capital assets	36,998,339	35,965,048
Total Assets	\$ 50,880,899	\$ 48,041,446
Long-term liabilities outstanding	\$ 1,077,949	\$ 993,578
Other liabilities	1,140,629	959,545
Total Liabilities	\$ 2,218,578	\$ 1,953,123
Net Position		
Invested in capital assets	\$ 36,998,339	\$ 35,965,048
Restricted	2,340,219	1,977,733
Held in trust for other purposes	7,857	7,857
Unrestricted	9,315,906	8,137,685
Total Net Position	\$ 48,662,321	\$ 46,088,323

The unrestricted net position amount of \$9,315,906 as of December 31, 2012, may be used to meet the County's ongoing obligations to citizens and creditors.

**Governmental Activities**

Wadena County's activities increased net position by \$2,573,998, or 5.58 percent, over the 2011 net position. The key elements of the increase in net position were an increase in invested in capital assets by \$1,033,291 and in unrestricted net position by \$1,178,221.

**Governmental Activities  
Changes in Net Position**

	2012	2011
Revenues		
Program revenues		
Charges for services	\$ 2,957,766	\$ 3,411,018
Operating grants and contributions	7,156,017	8,071,551
Capital grants and contributions	186,193	384,009
General revenues		
Property taxes	7,764,577	7,096,262
Other taxes	162	163
Grants and contributions not restricted to specific programs	1,110,402	1,606,662
Other	362,525	293,101
Total Revenues	\$ 19,537,642	\$ 20,862,766

	<u>2012</u>	<u>2011</u>
Expenses		
General government	\$ 3,079,196	\$ 2,931,529
Public safety	2,062,730	2,106,511
Highways and streets	3,733,145	3,096,481
Sanitation	1,050,561	2,191,846
Human services	5,696,664	5,408,196
Health	947,843	1,138,576
Culture and recreation	196,398	173,447
Conservation of natural resources	197,107	500,500
	<u>\$ 16,963,644</u>	<u>\$ 17,547,086</u>
Total Expenses		
Increase in Net Position	\$ 2,573,998	\$ 3,315,680
Net Position, January 1	<u>46,088,323</u>	<u>42,772,643</u>
Net Position, December 31	<u>\$ 48,662,321</u>	<u>\$ 46,088,323</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 \$9,570,525, an increase of \$1,820,865 in comparison with the prior year. The committed, assigned, and unassigned fund balance in the amount of \$7,664,850 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.

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 \$3,119,542, while total fund balance was \$4,436,380. 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. Committed, assigned, and unassigned fund balance represents 56.9 percent of total General Fund expenditures. In 2012, fund balance in the General Fund increased by \$953,373. This increase was due to excess revenues over expenditures of \$1,160,483 offset by transfers out

of \$207,110 to the Public Health Nurse Special Revenue Fund. In 2011, the General Fund had excess revenues over expenditures of \$898,221. The \$262,262 improvement in excess revenues over expenditures is due primarily to increased tax revenue of \$423,956, a decrease in conservation expenses of \$301,309, offset by a reduction in intergovernmental revenue of \$354,521, miscellaneous revenue of \$61,476, an increase in general government expenditures of \$32,349, and an increase in culture and recreation expenditures of \$22,951.

Fund balance in the Road and Bridge Special Revenue Fund decreased \$535,169 due to excess expenditures over revenues of \$617,632, offset with an increase in inventory of \$82,463. In 2011, the Road and Bridge Special Revenue Fund had excess revenues over expenditures of \$329,649. The \$947,281 decline in excess revenues over expenditures is due primarily to a \$328,514 decline in intergovernmental revenue, an increase in highways and streets expenditures of \$677,219, offset by an increase in tax revenue of \$96,504.

Fund balance in the Social Services Special Revenue Fund increased \$468,240 due to excess revenues over expenditures. In 2011, the Social Services Special Revenue Fund had excess revenues over expenditures of \$417,621. The \$50,619 improvement in excess revenues over expenditures is due primarily to an increase in tax revenue of \$141,588, an increase in miscellaneous revenue of \$90,082, offset by an increase in income maintenance expenditures of \$137,048 and an increase in social services expenditures of \$44,320.

### **General Fund Budgetary Highlights**

The difference between the General Fund original budget and the final amended budget was a net change of \$114,886. The difference between the actual amounts and the final amended budget was a net difference of \$1,057,794. 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 variance was a decrease in unallocated expenditures (due to the budgeting of a purchase of new windows and roof that did not occur until 2013).

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

The County's investment in capital assets for its governmental activities as of December 31, 2012, was \$36,998,339 (net of accumulated depreciation). This net investment in capital assets includes land, buildings, equipment, and infrastructure. The County's net investment in capital assets for the current fiscal year increased 2.9 percent. The net increase was attributed to the County's investment in its infrastructure.



**Governmental Activities  
Governmental Capital Assets**

	2012	2011
Land and construction in progress	\$ 604,959	\$ 604,959
Infrastructure	33,467,555	32,299,494
Buildings and building improvements	1,503,871	1,495,177
Furniture, equipment, and machinery	1,421,954	1,565,418
Total	\$ 36,998,339	\$ 35,965,048

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 7.6 percent at the end of 2012 compared to the statewide rate of 5.4 percent for the same time period.
- Wadena County is subject to levy limits for 2014.
- Wadena County’s property tax delinquency was 3.62 percent at the end of 2012, which is down from the previous year’s delinquent rate of 4.26 percent.
- Wadena County will again be subject in 2014 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 95.8390 percent in payable 2013 to 91.8256 percent in payable 2014. The Wadena County Commissioners approved a Preliminary Payable 2014 Tax Levy of zero percent increase.

**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.

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## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**WADENA COUNTY  
WADENA, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET POSITION  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2012**

**Assets**

Cash and pooled investments	\$	9,715,595
Petty cash and change funds		3,390
Taxes receivable		
Current		237,944
Prior		236,953
Special assessments receivable		
Current		18,680
Prior		20,705
Accounts receivable		70,803
Accrued interest receivable		7,820
Due from other governments		2,139,157
Advances receivable		83,750
Inventories		269,362
Investment in joint venture		1,078,401
Capital assets		
Non-depreciable		604,959
Depreciable - net of accumulated depreciation		36,393,380
		<b>\$ 50,880,899</b>

**Liabilities**

Accounts payable	\$	523,569
Salaries payable		415,057
Contracts payable		75,384
Due to other governments		126,119
Customer deposits		500
Long-term liabilities		
Due within one year		480,698
Due in more than one year		597,251
		<b>\$ 2,218,578</b>

**Net Position**

Net investment in capital assets	\$	36,998,339
Restricted for		
General government		788,629
Public safety		202,561
Highways and streets		1,074,219
Sanitation		57,324
Human services		133,445
Culture and recreation		149
Conservation of natural resources		83,892
Held in trust for other purposes		7,857
Unrestricted		9,315,906
		<b>\$ 48,662,321</b>

**WADENA COUNTY  
WADENA, MINNESOTA**

**EXHIBIT 2**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>Program Revenues</b>			<b>Net (Expense) Revenue and Changes in Net Position</b>
<b>Expenses</b>	<b>Fees, Charges, Fines, and Other</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	
<b><u>Functions/Programs</u></b>				
<b>Primary government</b>				
<b>Governmental activities</b>				
General government	\$ 3,079,196	\$ 349,702	\$ 73,274	\$ -
Public safety	2,062,730	89,338	211,729	-
Highways and streets	3,733,145	50,666	2,862,208	186,193
Sanitation	1,050,561	595,756	494,975	-
Human services	5,696,664	1,558,144	2,912,719	-
Health	947,843	259,365	437,306	-
Culture and recreation	196,398	15,719	4,430	-
Conservation of natural resources	197,107	39,076	159,376	-
<b>Total Governmental Activities</b>	<b>\$ 16,963,644</b>	<b>\$ 2,957,766</b>	<b>\$ 7,156,017</b>	<b>\$ 186,193</b>
<b>General Revenues</b>				
Property taxes				\$ 7,764,577
Mineral taxes				91
Other taxes				71
Payments in lieu of tax				56,069
Grants and contributions not restricted to specific programs				1,110,402
Unrestricted investment earnings				73,872
Miscellaneous				232,584
<b>Total general revenues</b>				<b>\$ 9,237,666</b>
<b>Change in Net Position</b>				<b>\$ 2,573,998</b>
<b>Net Position - Beginning</b>				<b>46,088,323</b>
<b>Net Position - Ending</b>				<b>\$ 48,662,321</b>



**FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

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**WADENA COUNTY  
WADENA, MINNESOTA**

**EXHIBIT 3**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2012**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>Assets</u></b>					
Cash and pooled investments	\$ 4,391,329	\$ 1,429,612	\$ 2,522,355	\$ 1,185,213	\$ 9,528,509
Petty cash and change funds	2,700	100	200	390	3,390
Undistributed cash in agency funds	114,749	26,381	33,460	12,496	187,086
Taxes receivable					
Current	145,270	40,703	51,971	-	237,944
Prior	139,169	43,827	53,957	-	236,953
Special assessments receivable					
Current	-	-	-	18,680	18,680
Prior	-	-	-	20,705	20,705
Accounts receivable	3,758	627	490	65,928	70,803
Accrued interest receivable	7,766	-	-	54	7,820
Due from other funds	8,139	2,699	1,074	7,259	19,171
Due from other governments	32,469	1,395,947	414,223	296,504	2,139,143
Inventories	-	269,362	-	-	269,362
Advances to other funds	233,750	12,500	22,500	2,500	271,250
<b>Total Assets</b>	<b>\$ 5,079,099</b>	<b>\$ 3,221,758</b>	<b>\$ 3,100,230</b>	<b>\$ 1,609,729</b>	<b>\$ 13,010,816</b>
<b><u>Liabilities and Fund Balances</u></b>					
<b>Liabilities</b>					
Accounts payable	\$ 157,915	\$ 149,461	\$ 135,176	\$ 81,017	\$ 523,569
Salaries payable	177,232	67,514	107,567	62,744	415,057
Contracts payable	-	75,384	-	-	75,384
Due to other funds	10,610	210	11,761	2,723	25,304
Due to other governments	59,003	23,230	24,919	12,820	119,972
Advances from other funds	-	-	187,500	-	187,500
Customer deposits	-	500	-	-	500
Deferred revenue - unavailable	237,959	1,467,402	107,793	279,851	2,093,005
<b>Total Liabilities</b>	<b>\$ 642,719</b>	<b>\$ 1,783,701</b>	<b>\$ 574,716</b>	<b>\$ 439,155</b>	<b>\$ 3,440,291</b>

**WADENA COUNTY  
WADENA, MINNESOTA**

**EXHIBIT 3  
(Continued)**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2012**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>Liabilities and Fund Balances</u></b>					
<b>(Continued)</b>					
<b>Fund Balances</b>					
Nonspendable					
Inventories	\$ -	\$ 269,362	\$ -	\$ -	\$ 269,362
Advances to other funds	233,750	12,500	22,500	2,500	271,250
Restricted					
Recorder's equipment	54,382	-	-	-	54,382
Sheriff's forfeited property	9,734	-	-	-	9,734
Enhanced 911	166,473	-	-	-	166,473
Mental health initiative	-	-	132,314	-	132,314
Peer center	-	-	1,131	-	1,131
Emergency management	479	-	-	-	479
Missing heirs	7,857	-	-	-	7,857
Compliance fund	122,481	-	-	-	122,481
State-aid highway projects	-	91,206	-	-	91,206
Attorney's forfeited property	25,993	-	-	-	25,993
HAVA	51,657	-	-	-	51,657
ISTS	67,341	-	-	-	67,341
SCORE	-	-	-	57,324	57,324
Gun permits	25,875	-	-	-	25,875
Shoreline grant	16,551	-	-	-	16,551
Building fund	534,116	-	-	-	534,116
Parks	149	-	-	-	149
Committed					
Parks	34,858	-	-	-	34,858
Timber development	7,057	-	-	-	7,057
AS400	1,908	-	-	-	1,908
Sheriff's contingencies	5,000	-	-	-	5,000
Fairgrounds rebuilding disaster	448,647	-	-	-	448,647
Assigned					
Canteen	17,937	-	-	-	17,937
Road and bridge	-	1,064,989	-	-	1,064,989
County agent brochures	3,640	-	-	-	3,640
Human services	-	-	2,369,569	-	2,369,569
GIS	41,698	-	-	-	41,698
County agent	4,356	-	-	-	4,356
Plat books	13,833	-	-	-	13,833
Transit	-	-	-	110,226	110,226
Public health nurse	-	-	-	286,335	286,335
Solid waste	-	-	-	714,189	714,189
Unassigned	2,540,608	-	-	-	2,540,608
<b>Total Fund Balances</b>	<b>\$ 4,436,380</b>	<b>\$ 1,438,057</b>	<b>\$ 2,525,514</b>	<b>\$ 1,170,574</b>	<b>\$ 9,570,525</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 5,079,099</b>	<b>\$ 3,221,758</b>	<b>\$ 3,100,230</b>	<b>\$ 1,609,729</b>	<b>\$ 13,010,816</b>

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

**WADENA COUNTY  
WADENA, MINNESOTA**

***EXHIBIT 4***

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2012**

<b>Fund balances - total governmental funds (Exhibit 3)</b>		<b>\$</b>	<b>9,570,525</b>
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.			36,998,339
Investment in joint venture is not available to pay for current period expenditures and, therefore, is not reported in the governmental funds.			1,078,401
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			2,093,005
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.			
Compensated absences	\$	(803,360)	
Net OPEB liability		(274,589)	(1,077,949)
<b>Net Position of Governmental Activities (Exhibit 1)</b>			<b><u><u>\$ 48,662,321</u></u></b>

**WADENA COUNTY  
WADENA, MINNESOTA**

**EXHIBIT 5**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>					
Taxes	\$ 4,736,948	\$ 1,308,382	\$ 1,669,642	\$ 2,759	\$ 7,717,731
Special assessments	-	-	-	407,772	407,772
Licenses and permits	54,208	-	-	24,098	78,306
Intergovernmental	1,103,961	2,881,884	2,850,573	1,724,258	8,560,676
Charges for services	256,770	-	-	860,966	1,117,736
Fines and forfeits	32,096	-	-	-	32,096
Gifts and contributions	1,570	-	-	-	1,570
Investment earnings	71,313	-	-	2,551	73,864
Miscellaneous	388,455	49,149	1,195,329	53,087	1,686,020
<b>Total Revenues</b>	<b>\$ 6,645,321</b>	<b>\$ 4,239,415</b>	<b>\$ 5,715,544</b>	<b>\$ 3,075,491</b>	<b>\$ 19,675,771</b>
<b>Expenditures</b>					
<b>Current</b>					
General government	\$ 2,998,098	\$ -	\$ -	\$ -	\$ 2,998,098
Public safety	2,091,983	-	-	-	2,091,983
Highways and streets	-	4,680,766	-	-	4,680,766
Sanitation	-	-	-	1,026,105	1,026,105
Human services	-	-	5,247,304	387,339	5,634,643
Health	-	-	-	934,736	934,736
Culture and recreation	196,398	-	-	-	196,398
Conservation of natural resources	198,359	-	-	-	198,359
<b>Intergovernmental</b>					
Highways and streets	-	176,281	-	-	176,281
<b>Total Expenditures</b>	<b>\$ 5,484,838</b>	<b>\$ 4,857,047</b>	<b>\$ 5,247,304</b>	<b>\$ 2,348,180</b>	<b>\$ 17,937,369</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 1,160,483</b>	<b>\$ (617,632)</b>	<b>\$ 468,240</b>	<b>\$ 727,311</b>	<b>\$ 1,738,402</b>
<b>Other Financing Sources (Uses)</b>					
Transfers in	\$ -	\$ -	\$ -	\$ 207,110	\$ 207,110
Transfers out	(207,110)	-	-	-	(207,110)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (207,110)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 207,110</b>	<b>\$ -</b>
<b>Net Change in Fund Balance</b>	<b>\$ 953,373</b>	<b>\$ (617,632)</b>	<b>\$ 468,240</b>	<b>\$ 934,421</b>	<b>\$ 1,738,402</b>
<b>Fund Balance - January 1</b>	<b>3,483,007</b>	<b>1,973,226</b>	<b>2,057,274</b>	<b>236,153</b>	<b>7,749,660</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>82,463</b>	<b>-</b>	<b>-</b>	<b>82,463</b>
<b>Fund Balance - December 31</b>	<b>\$ 4,436,380</b>	<b>\$ 1,438,057</b>	<b>\$ 2,525,514</b>	<b>\$ 1,170,574</b>	<b>\$ 9,570,525</b>



**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, 2012**

**Net change in fund balance - total governmental funds (Exhibit 5) \$ 1,738,402**

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	\$ 2,093,005	
Deferred revenue - January 1	<u>(2,570,906)</u>	(477,901)

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 position differs from the change in fund balance by the net book value of the assets sold.

Expenditures for general capital assets and infrastructure	\$ 2,521,304	
Current year depreciation	<u>(1,488,013)</u>	1,033,291

In the statement of net position, an asset is reported for the equity interest in joint ventures. The change in net position differs from the change in fund balance by the increases and decreases in the investment in joint venture.		282,114
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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	\$ (44,008)	
Change in inventories	82,463	
Net OPEB liability	<u>(40,363)</u>	<u>(1,908)</u>

**Change in Net Position of Governmental Activities (Exhibit 2) \$ 2,573,998**

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**FIDUCIARY FUNDS**

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**WADENA COUNTY  
WADENA, MINNESOTA**

*EXHIBIT 7*

**STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
DECEMBER 31, 2012**

	<b>Family Service Collaborative Investment Trust</b>	<b>Health Reimbursement Employee Benefit Trust</b>	<b>Agency Funds</b>
	<hr/>	<hr/>	<hr/>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 131,244	\$ 272,905	\$ 316,202
Receivables			
Accounts	2,537	-	-
Interest	59	-	-
Due from other governments	7,052	-	-
Due from other funds	-	6,147	-
	<hr/>	<hr/>	<hr/>
<b>Total Assets</b>	<b>\$ 140,892</b>	<b>\$ 279,052</b>	<b>\$ 316,202</b>
	<hr/>	<hr/>	<hr/>
<b><u>Liabilities</u></b>			
Accounts payable	\$ 686	\$ 2,497	\$ -
Due to other funds	14	-	-
Due to other governments	-	-	316,202
Deferred revenue - unavailable	7,435	-	-
Advances from governmental funds	-	83,750	-
	<hr/>	<hr/>	<hr/>
<b>Total Liabilities</b>	<b>\$ 8,135</b>	<b>\$ 86,247</b>	<b>\$ 316,202</b>
	<hr/>	<hr/>	<hr/>
<b><u>Net Position</u></b>			
Net position, held in trust for pool participants	\$ 140,925	\$ -	
Net position, held in trust for employees	-	193,984	
Unrestricted	(8,168)	(1,179)	
	<hr/>	<hr/>	
<b>Total Net Position</b>	<b>\$ 132,757</b>	<b>\$ 192,805</b>	
	<hr/>	<hr/>	

**WADENA COUNTY  
WADENA, MINNESOTA**

*EXHIBIT 8*

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>Family Service Collaborative Investment Trust</b>	<b>Health Reimbursement Employee Benefit Trust</b>
	<hr/>	<hr/>
<b><u>Additions</u></b>		
Contributions from employers	\$ -	\$ 84,268
Contributions from participants	34,096	-
Investment earnings		
Interest	858	-
	<hr/>	<hr/>
<b>Total Additions</b>	<b>\$ 34,954</b>	<b>\$ 84,268</b>
<b><u>Deductions</u></b>		
Benefit payments	\$ -	\$ 85,447
Pool participant withdrawals	43,122	-
	<hr/>	<hr/>
<b>Total Deductions</b>	<b>\$ 43,122</b>	<b>\$ 85,447</b>
<b>Change in Net Position</b>	<b>\$ (8,168)</b>	<b>\$ (1,179)</b>
<b>Net Position - Beginning of the Year</b>	<b>140,925</b>	<b>193,984</b>
	<hr/>	<hr/>
<b>Net Position - End of the Year</b>	<b>\$ 132,757</b>	<b>\$ 192,805</b>
	<hr/> <hr/>	<hr/> <hr/>

**WADENA COUNTY  
WADENA, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012**

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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, 2012. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

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 position 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**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

In the government-wide statement of net position, the governmental activities are presented on a consolidated basis and 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 position is reported in three parts: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. The County first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities 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 accounted for in another fund.



**WADENA COUNTY  
WADENA, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

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

Additionally, the County reports the following fiduciary 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**

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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 Position 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, 2012, 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 2012 were \$71,483.

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**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position 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**

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1. Summary of Significant Accounting Policies

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

5. Restricted Assets

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

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, sidewalks, and similar items), are reported in the 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**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position 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 vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. 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**

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1. Summary of Significant Accounting Policies

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

9. Classification of Net Position

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

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

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

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

10. Classification of Fund Balances

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

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

**WADENA COUNTY  
WADENA, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

10. Classification of Fund Balances (Continued)

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

Assigned - amounts 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.

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

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.

11. Minimum Fund Balance

Wadena County has adopted a minimum fund balance policy for the General Fund. The General Fund 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 Board has determined they need to

**WADENA COUNTY  
WADENA, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

11. Minimum Fund Balance (Continued)

maintain a minimum unrestricted fund balance (committed, assigned, and unassigned) of no less than three months of operating expenditures. At December 31, 2012, unrestricted fund balance for the General Fund was at or above the minimum fund balance level.

12. 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.

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, 2012.

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
Special Revenue Funds			
Road and Bridge	\$ 4,857,047	\$ 4,198,601	\$ 658,446
Transit	387,339	353,270	34,069



**WADENA COUNTY  
WADENA, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net position	
Governmental activities	
Cash and pooled investments	\$ 9,718,985
Statement of fiduciary net position	
Cash and pooled investments	
Investment trust fund	131,244
Employee benefit trust fund	272,905
Agency funds	<u>316,202</u>
Total Cash and Investments	<u>\$ 10,439,336</u>
Deposits	
Checking	\$ 784,705
Money market savings	5,686,241
Certificates of deposit	3,965,000
Petty cash and change funds	<u>3,390</u>
Total Deposits, Cash on Hand, and Investments	<u>\$ 10,439,336</u>

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.

**WADENA COUNTY  
WADENA, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2012, the County's deposits were not exposed to custodial credit risk.

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

**WADENA COUNTY  
WADENA, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

During the year ended December 31, 2012, the County had no investments.

2. Receivables

Receivables as of December 31, 2012, for the County's governmental activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 474,897	\$ -
Special assessments	39,385	-
Accounts	70,803	-
Interest	7,820	-
Due from other governments	2,139,157	-
Advances receivable	83,750	-
Total Governmental Activities	\$ 2,815,812	\$ -

**WADENA COUNTY  
WADENA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 604,959	\$ -	\$ -	\$ 604,959
Total capital assets not depreciated	\$ 604,959	\$ -	\$ -	\$ 604,959
Capital assets depreciated				
Buildings	\$ 4,600,894	\$ -	\$ -	\$ 4,600,894
Building improvements	142,132	99,317	-	241,449
Machinery, furniture, and equipment	4,227,947	211,511	66,201	4,373,257
Infrastructure	48,279,202	2,210,476	-	50,489,678
Total capital assets depreciated	\$ 57,250,175	\$ 2,521,304	\$ 66,201	\$ 59,705,278
Less: accumulated depreciation for				
Buildings	\$ 3,230,082	\$ 70,481	\$ -	\$ 3,300,563
Building improvements	17,767	20,142	-	37,909
Machinery, furniture, and equipment	2,662,529	354,975	66,201	2,951,303
Infrastructure	15,979,708	1,042,415	-	17,022,123
Total accumulated depreciation	\$ 21,890,086	\$ 1,488,013	\$ 66,201	\$ 23,311,898
Total capital assets depreciated, net	\$ 35,360,089	\$ 1,033,291	\$ -	\$ 36,393,380
Governmental Activities Capital Assets, Net	\$ 35,965,048	\$ 1,033,291	\$ -	\$ 36,998,339

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

Governmental Activities	
General government	\$ 58,796
Public safety	47,466
Highways and streets, including depreciation of infrastructure assets	1,298,546
Sanitation	51,727
Human services	28,963
Health	2,515
Total Depreciation Expense - Governmental Activities	\$ 1,488,013

**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, 2012, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Road and Bridge	\$ 210
	Social Services	7,016
	Other governmental funds	899
	Family Services Collaborative Investment Trust	14
Total due to General Fund		\$ 8,139
Road and Bridge	General	\$ 1,949
	Solid Waste	750
Total due to Road and Bridge Fund		\$ 2,699
Social Services	Other governmental funds	1,074
Total due to Social Services Fund		\$ 1,074
Other governmental funds	General	\$ 5,431
	Social Services	1,828
Total due to other governmental funds		\$ 7,259
Health Reimbursement Employee Benefit Trust	General	\$ 3,230
	Social Services	2,917
Total due to Health Reimbursement Employee Benefit Trust		\$ 6,147
Total Due To/From Other Funds		\$ 25,318

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

**WADENA COUNTY  
WADENA, MINNESOTA**

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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	\$ 187,500
	Employee Benefit Trust	46,250
Total advances to General Fund		\$ 233,750
Road and Bridge	Employee Benefit Trust	\$ 12,500
Social Services	Employee Benefit Trust	22,500
Solid Waste	Employee Benefit Trust	2,500
Total Advances To/From Other Funds		\$ 271,250

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, 2012. 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, 2012, consisted of the following:

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

**WADENA COUNTY  
WADENA, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2012, were as follows:

		Governmental Activities
Accounts	\$	523,569
Salaries		415,057
Contracts payable		75,384
Due to other governments		126,119
Total Payables	\$	1,140,129

2. Deferred Revenues

Deferred revenues as of December 31, 2012, for the County's governmental funds are as follows:

	Deferred Unavailable	Deferred Unearned
Governmental Funds		
Taxes	\$ 397,033	\$ -
Special assessments	33,338	-
Intergovernmental revenue	1,652,689	-
Other	9,945	-
Total Governmental Funds	\$ 2,093,005	\$ -

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, 2012, 46 employees had health reimbursement accounts. The County advanced \$83,750 to the Employee Benefit Trust Fund as of December 31, 2012.

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Net OPEB liability	\$ 234,226	\$ 119,061	\$ 78,698	\$ 274,589	\$ -
Compensated absences	759,352	532,921	488,913	803,360	480,698
Total Long-Term Liabilities	<u>\$ 993,578</u>	<u>\$ 651,982</u>	<u>\$ 567,611</u>	<u>\$ 1,077,949</u>	<u>\$ 480,698</u>

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

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



**WADENA COUNTY  
WADENA, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Plan Description (Continued)

Government Correctional Service Retirement Fund (the Public Employees Correctional Fund), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

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

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

**WADENA COUNTY  
WADENA, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Plan Description (Continued)

average salary for each of the first ten years and 1.7 percent for each successive year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

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](http://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.

**WADENA COUNTY  
WADENA, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan (Continued)

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 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 2012:

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, 2012, 2011, and 2010, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
General Employees Retirement Fund	\$ 388,702	\$ 382,273	\$ 372,211
Public Employees Police and Fire Fund	67,342	64,384	61,042
Public Employees Correctional Fund	38,691	38,237	38,679

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

**WADENA COUNTY  
WADENA, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits (Continued)

B. Defined Contribution Plan

Two 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.

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, 2012, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 2,007	\$ 2,007
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

**WADENA COUNTY  
WADENA, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits (Continued)

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.

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	10,540
Adjustment to ARC	<u>(14,439)</u>
Annual OPEB cost (expense)	\$ 119,061
Contributions made	<u>(78,698)</u>
Increase in net OPEB obligation	\$ 40,363
Net OPEB Obligation - Beginning of Year	<u>234,226</u>
Net OPEB Obligation - End of Year	<u>\$ 274,589</u>

**WADENA COUNTY  
WADENA, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

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, 2010, 2011, and 2012, were as follows:

<u>Fiscal Year-End</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2010	\$ 101,763	\$ 51,660	50.8%	\$ 171,511
December 31, 2011	120,185	57,470	47.8	234,226
December 31, 2012	119,061	78,698	66.1	274,589

Funded Status and Funding Progress

As of January 1, 2011, the most recent actuarial valuation date, the County had no assets to fund the plan. The actuarial accrued liability for benefits was \$875,558, and the actuarial value of assets was zero, 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 Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress - Other Postemployment Benefits, presented as required supplementary information following the notes to the financial

**WADENA COUNTY  
WADENA, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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 designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2011, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of investment expenses), which is 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, 2012, was 25 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.

**WADENA COUNTY  
WADENA, MINNESOTA**

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5. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$460,000 per claim in 2012 and \$470,000 per claim in 2013. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

The 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.



**WADENA COUNTY  
WADENA, MINNESOTA**

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

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.

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 position 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.

**WADENA COUNTY  
WADENA, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

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.

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

**WADENA COUNTY  
WADENA, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Wadena County Family Service Collaborative (Continued)

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 2012, the County contributed \$1,000 to the Collaborative.

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 2012, 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

**WADENA COUNTY  
WADENA, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

South Country Health Alliance (Continued)

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.

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, 2012, was \$1,078,401. Wadena County's share of the SCHA's net income was \$282,114. The equity interest is reported as an investment in joint venture on the government-wide statement of net position. 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**

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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 cooperation with efforts in other Solid Waste Management activities that affect the

**WADENA COUNTY  
WADENA, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

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

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.

**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, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 5,028,695	\$ 5,028,695	\$ 4,736,948	\$ (291,747)
Licenses and permits	38,510	38,510	54,208	15,698
Intergovernmental	875,600	876,072	1,103,961	227,889
Charges for services	248,776	248,776	256,770	7,994
Fines and forfeits	15,000	15,000	32,096	17,096
Gifts and contributions	-	-	1,570	1,570
Investment earnings	56,000	56,000	71,313	15,313
Miscellaneous	158,388	158,388	388,455	230,067
<b>Total Revenues</b>	<b>\$ 6,420,969</b>	<b>\$ 6,421,441</b>	<b>\$ 6,645,321</b>	<b>\$ 223,880</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 135,200	\$ 135,200	\$ 131,091	\$ 4,109
Courts	5,000	5,000	-	5,000
Coordinator	50,000	50,000	16,220	33,780
County auditor/treasurer	606,475	606,475	604,260	2,215
County assessor	395,939	395,939	310,962	84,977
Elections	27,800	27,800	39,079	(11,279)
Voter registration	1,000	1,000	1,739	(739)
Data processing	379,366	454,366	444,359	10,007
Central services	91,250	91,250	81,124	10,126
Help America Vote Act	7,000	7,000	5,342	1,658
Attorney	273,905	273,905	261,342	12,563
Law library	20,000	20,000	31,997	(11,997)
Contracted legal services	61,100	61,100	60,405	695
Recorder	222,077	222,077	177,499	44,578
Planning and zoning	136,524	136,524	138,772	(2,248)
Geographic information system and global positioning system	69,533	69,533	69,683	(150)
County buildings	155,875	155,875	60,073	95,802
Buildings and plant	409,800	409,800	340,294	69,506
Veterans service officer	54,920	54,920	54,103	817
Other general government	-	12,635	-	12,635
Unallocated	527,935	527,935	169,754	358,181
<b>Total general government</b>	<b>\$ 3,630,699</b>	<b>\$ 3,718,334</b>	<b>\$ 2,998,098</b>	<b>\$ 720,236</b>

**WADENA COUNTY  
WADENA, MINNESOTA**

**EXHIBIT A-1  
(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Public safety</b>				
Sheriff	\$ 1,550,903	\$ 1,577,395	\$ 1,609,237	\$ (31,842)
Boat and water safety	5,572	6,803	7,046	(243)
Sheriff's forfeiture	-	-	5,978	(5,978)
Coroner	26,550	26,550	16,724	9,826
ATV grant	5,235	5,235	7,242	(2,007)
E-911 system	25,303	25,303	60,339	(35,036)
Law enforcement center	282,028	282,028	157,655	124,373
Community corrections	151,229	151,229	151,229	-
Civil defense	113,549	113,549	71,911	41,638
County safety program	8,393	8,393	4,622	3,771
<b>Total public safety</b>	<b>\$ 2,168,762</b>	<b>\$ 2,196,485</b>	<b>\$ 2,091,983</b>	<b>\$ 104,502</b>
<b>Culture and recreation</b>				
Historical society	\$ 4,000	\$ 4,000	\$ 4,000	\$ -
Parks	37,032	37,032	42,653	(5,621)
Humane society	600	600	600	-
Regional library	80,122	80,122	80,122	-
Snowmobile trails	65,000	65,000	69,023	(4,023)
<b>Total culture and recreation</b>	<b>\$ 186,754</b>	<b>\$ 186,754</b>	<b>\$ 196,398</b>	<b>\$ (9,644)</b>
<b>Conservation of natural resources</b>				
County extension	\$ 126,168	\$ 126,168	\$ 126,262	\$ (94)
Soil and water conservation	48,011	48,011	24,956	23,055
Agricultural inspection	15,000	15,000	7,500	7,500
Agricultural society/County fair	28,000	28,000	37,341	(9,341)
Tree planting	7,000	7,000	2,300	4,700
<b>Total conservation of natural resources</b>	<b>\$ 224,179</b>	<b>\$ 224,179</b>	<b>\$ 198,359</b>	<b>\$ 25,820</b>
<b>Total Expenditures</b>	<b>\$ 6,210,394</b>	<b>\$ 6,325,752</b>	<b>\$ 5,484,838</b>	<b>\$ 840,914</b>

**WADENA COUNTY  
WADENA, MINNESOTA**

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

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Excess of Revenues Over (Under) Expenditures</b>	\$ 210,575	\$ 95,689	\$ 1,160,483	\$ 1,064,794
<b>Other Financing Sources (Uses)</b>				
Transfers in	7,000	7,000	-	(7,000)
Transfers out	<u>(207,110)</u>	<u>(207,110)</u>	<u>(207,110)</u>	<u>-</u>
<b>Total Other Financing Sources (Uses)</b>	<u>\$ (200,110)</u>	<u>\$ (200,110)</u>	<u>\$ (207,110)</u>	<u>\$ (7,000)</u>
<b>Net Change in Fund Balance</b>	\$ 10,465	\$ (104,421)	\$ 953,373	\$ 1,057,794
<b>Fund Balance - January 1</b>	<u>3,483,007</u>	<u>3,483,007</u>	<u>3,483,007</u>	<u>-</u>
<b>Fund Balance - December 31</b>	<u><u>\$ 3,493,472</u></u>	<u><u>\$ 3,378,586</u></u>	<u><u>\$ 4,436,380</u></u>	<u><u>\$ 1,057,794</u></u>

**WADENA COUNTY  
WADENA, MINNESOTA**

*EXHIBIT A-2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,393,292	\$ 1,393,292	\$ 1,308,382	\$ (84,910)
Intergovernmental	2,835,425	2,835,425	2,881,884	46,459
Miscellaneous	35,000	35,000	49,149	14,149
<b>Total Revenues</b>	<b>\$ 4,263,717</b>	<b>\$ 4,263,717</b>	<b>\$ 4,239,415</b>	<b>\$ (24,302)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 322,415	\$ 326,546	\$ 327,029	\$ (483)
Maintenance	1,396,016	1,389,282	1,455,623	(66,341)
Construction	2,095,707	2,090,408	2,620,863	(530,455)
Equipment maintenance and shop	237,529	237,365	277,251	(39,886)
<b>Total highways and streets</b>	<b>\$ 4,051,667</b>	<b>\$ 4,043,601</b>	<b>\$ 4,680,766</b>	<b>\$ (637,165)</b>
<b>Intergovernmental</b>				
Highways and streets	155,000	155,000	176,281	(21,281)
<b>Total Expenditures</b>	<b>\$ 4,206,667</b>	<b>\$ 4,198,601</b>	<b>\$ 4,857,047</b>	<b>\$ (658,446)</b>
<b>Net Change in Fund Balance</b>	<b>\$ 57,050</b>	<b>\$ 65,116</b>	<b>\$ (617,632)</b>	<b>\$ (682,748)</b>
<b>Fund Balance - January 1</b>	<b>1,973,226</b>	<b>1,973,226</b>	<b>1,973,226</b>	<b>-</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>-</b>	<b>82,463</b>	<b>82,463</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,030,276</b>	<b>\$ 2,038,342</b>	<b>\$ 1,438,057</b>	<b>\$ (600,285)</b>

**WADENA COUNTY  
WADENA, MINNESOTA**

*EXHIBIT A-3*

**BUDGETARY COMPARISON SCHEDULE  
SOCIAL SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,726,038	\$ 1,726,038	\$ 1,669,642	\$ (56,396)
Intergovernmental	2,812,213	2,812,213	2,850,573	38,360
Miscellaneous	717,710	717,710	1,195,329	477,619
<b>Total Revenues</b>	<b>\$ 5,255,961</b>	<b>\$ 5,255,961</b>	<b>\$ 5,715,544</b>	<b>\$ 459,583</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 1,544,484	\$ 1,622,807	\$ 1,662,269	\$ (39,462)
Social services	3,711,477	3,742,255	3,585,035	157,220
<b>Total Expenditures</b>	<b>\$ 5,255,961</b>	<b>\$ 5,365,062</b>	<b>\$ 5,247,304</b>	<b>\$ 117,758</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ (109,101)</b>	<b>\$ 468,240</b>	<b>\$ 577,341</b>
<b>Fund Balance - January 1</b>	<b>1,639,653</b>	<b>1,639,653</b>	<b>2,057,274</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,639,653</b>	<b>\$ 1,530,552</b>	<b>\$ 2,525,514</b>	<b>\$ 577,341</b>

**WADENA COUNTY  
WADENA, MINNESOTA**

**EXHIBIT A-4**

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS  
DECEMBER 31, 2012

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

**WADENA COUNTY  
WADENA, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2012**

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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, and the Social Services Special Revenue Fund.

2. Excess of Expenditures Over Budget

For the year ended December 31, 2012, the Road and Bridge Special Revenue Fund had expenditures in excess of budget of \$658,446.

3. Other Postemployment Benefits Funding Status

Wadena County implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in 2008. Since the County has not irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets to pay the accrued liability for postemployment benefits is zero. Currently, two actuarial valuations are available. As the information becomes available, future reports will provide additional trend analysis to meet the three valuation funding status requirement. See Note 4.C. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

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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.

Solid Waste Fund - is used to account for activities related to waste management services. Financing is provided by an annual fee to property owners.

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, 2012**

	<b>Public Health Nurse</b>	<b>Transit</b>	<b>Solid Waste</b>	<b>Total (Exhibit 3)</b>
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 294,159	\$ 129,133	\$ 761,921	\$ 1,185,213
Petty cash and change funds	40	100	250	390
Undistributed cash in agency funds	-	-	12,496	12,496
Special assessments receivable				
Current	-	-	18,680	18,680
Prior	-	-	20,705	20,705
Accounts receivable	1,484	2,117	62,327	65,928
Accrued interest receivable	-	54	-	54
Due from other funds	7,251	-	8	7,259
Due from other governments	61,916	37,499	197,089	296,504
Advance to other funds	-	-	2,500	2,500
	<b>\$ 364,850</b>	<b>\$ 168,903</b>	<b>\$ 1,075,976</b>	<b>\$ 1,609,729</b>
<b><u>Liabilities and Fund Balances</u></b>				
<b>Liabilities</b>				
Accounts payable	\$ 11,838	\$ 9,406	\$ 59,773	\$ 81,017
Salaries payable	45,863	10,412	6,469	62,744
Due to other funds	812	1,161	750	2,723
Due to other governments	8,524	199	4,097	12,820
Deferred revenue - unavailable	11,478	37,499	230,874	279,851
	<b>\$ 78,515</b>	<b>\$ 58,677</b>	<b>\$ 301,963</b>	<b>\$ 439,155</b>
<b>Fund Balances</b>				
Nonspendable				
Advances to other funds	\$ -	\$ -	\$ 2,500	\$ 2,500
Restricted				
SCORE	-	-	57,324	57,324
Assigned				
Public health	286,335	-	-	286,335
Solid waste	-	-	714,189	714,189
Transit	-	110,226	-	110,226
	<b>\$ 286,335</b>	<b>\$ 110,226</b>	<b>\$ 774,013</b>	<b>\$ 1,170,574</b>
<b>Total Fund Balances</b>	<b>\$ 286,335</b>	<b>\$ 110,226</b>	<b>\$ 774,013</b>	<b>\$ 1,170,574</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 364,850</b>	<b>\$ 168,903</b>	<b>\$ 1,075,976</b>	<b>\$ 1,609,729</b>

**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, 2012**

	<u>Public Health Nurse</u>	<u>Transit</u>	<u>Solid Waste</u>	<u>Total (Exhibit 5)</u>
<b>Revenues</b>				
Taxes	\$ -	\$ -	\$ 2,759	\$ 2,759
Special assessments	-	-	407,772	407,772
Licenses and permits	23,923	-	175	24,098
Intergovernmental	550,661	311,123	862,474	1,724,258
Charges for services	205,686	64,606	590,674	860,966
Investment earnings	2,000	551	-	2,551
Miscellaneous	30,813	17,835	4,439	53,087
<b>Total Revenues</b>	<b>\$ 813,083</b>	<b>\$ 394,115</b>	<b>\$ 1,868,293</b>	<b>\$ 3,075,491</b>
<b>Expenditures</b>				
<b>Current</b>				
Sanitation	\$ -	\$ -	\$ 1,026,105	\$ 1,026,105
Human services	-	387,339	-	387,339
Health	934,736	-	-	934,736
<b>Total Expenditures</b>	<b>\$ 934,736</b>	<b>\$ 387,339</b>	<b>\$ 1,026,105</b>	<b>\$ 2,348,180</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (121,653)</b>	<b>\$ 6,776</b>	<b>\$ 842,188</b>	<b>\$ 727,311</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	207,110	-	-	207,110
<b>Net Change in Fund Balance</b>	<b>\$ 85,457</b>	<b>\$ 6,776</b>	<b>\$ 842,188</b>	<b>\$ 934,421</b>
<b>Fund Balance - January 1</b>	<b>200,878</b>	<b>103,450</b>	<b>(68,175)</b>	<b>236,153</b>
<b>Fund Balance - December 31</b>	<b>\$ 286,335</b>	<b>\$ 110,226</b>	<b>\$ 774,013</b>	<b>\$ 1,170,574</b>

**WADENA COUNTY  
WADENA, MINNESOTA**

*EXHIBIT C-1*

**BUDGETARY COMPARISON SCHEDULE  
PUBLIC HEALTH NURSE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Licenses and permits	\$ 21,078	\$ 21,078	\$ 23,923	\$ 2,845
Intergovernmental	533,114	533,114	550,661	17,547
Charges for services	222,860	222,860	205,686	(17,174)
Miscellaneous	40,176	40,176	30,813	(9,363)
<b>Total Revenues</b>	<b>\$ 817,228</b>	<b>\$ 817,228</b>	<b>\$ 811,083</b>	<b>\$ (6,145)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Health</b>				
Nursing service	1,026,338	1,026,338	934,736	91,602
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ (209,110)</b>	<b>\$ (209,110)</b>	<b>\$ (123,653)</b>	<b>\$ 85,457</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	207,110	207,110	207,110	-
<b>Net Change in Fund Balance</b>	<b>\$ (2,000)</b>	<b>\$ (2,000)</b>	<b>\$ 83,457</b>	<b>\$ 85,457</b>
<b>Fund Balance - January 1</b>	<b>200,878</b>	<b>200,878</b>	<b>200,878</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 198,878</b>	<b>\$ 198,878</b>	<b>\$ 284,335</b>	<b>\$ 85,457</b>

**WADENA COUNTY  
WADENA, MINNESOTA**

*EXHIBIT C-2*

**BUDGETARY COMPARISON SCHEDULE  
TRANSIT SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ -	\$ -	\$ 311,123	\$ 311,123
Charges for services	52,000	52,000	64,606	12,606
Investment earnings	-	-	551	551
Miscellaneous	-	-	17,835	17,835
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total Revenues</b>	<b>\$ 52,000</b>	<b>\$ 52,000</b>	<b>\$ 394,115</b>	<b>\$ 342,115</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Transportation	353,270	353,270	387,339	(34,069)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Net Change in Fund Balance</b>	<b>\$ (301,270)</b>	<b>\$ (301,270)</b>	<b>\$ 6,776</b>	<b>\$ 308,046</b>
<b>Fund Balance - January 1</b>	<b>103,450</b>	<b>103,450</b>	<b>103,450</b>	<b>-</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Fund Balance - December 31</b>	<b>\$ (197,820)</b>	<b>\$ (197,820)</b>	<b>\$ 110,226</b>	<b>\$ 308,046</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>



**WADENA COUNTY  
WADENA, MINNESOTA**

*EXHIBIT C-3*

**BUDGETARY COMPARISON SCHEDULE  
SOLID WASTE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 18,000	\$ 18,000	\$ 2,759	\$ (15,241)
Special assessments	450,000	450,000	407,772	(42,228)
Licenses and permits	350	350	175	(175)
Intergovernmental	61,800	61,800	862,474	800,674
Charges for services	640,000	640,000	590,674	(49,326)
Miscellaneous	2,500	2,500	4,439	1,939
<b>Total Revenues</b>	<b>\$ 1,172,650</b>	<b>\$ 1,172,650</b>	<b>\$ 1,868,293</b>	<b>\$ 695,643</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Sanitation</b>				
Solid waste	\$ 939,350	\$ 939,350	\$ 854,000	\$ 85,350
Recycling	149,110	149,110	172,105	(22,995)
<b>Total Expenditures</b>	<b>\$ 1,088,460</b>	<b>\$ 1,088,460</b>	<b>\$ 1,026,105</b>	<b>\$ 62,355</b>
<b>Net Change in Fund Balance</b>	<b>\$ 84,190</b>	<b>\$ 84,190</b>	<b>\$ 842,188</b>	<b>\$ 757,998</b>
<b>Fund Balance - January 1</b>	<b>(68,175)</b>	<b>(68,175)</b>	<b>(68,175)</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 16,015</b>	<b>\$ 16,015</b>	<b>\$ 774,013</b>	<b>\$ 757,998</b>

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**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, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>GOVERNMENTAL (80)</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 27,847	\$ 59,636	\$ 75,399	\$ 12,084
<b><u>Liabilities</u></b>				
Due to other governments	\$ 27,847	\$ 59,636	\$ 75,399	\$ 12,084
 <b><u>TAXES AND PENALTIES (82)</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 295,784	\$ 15,997,453	\$ 15,989,119	\$ 304,118
<b><u>Liabilities</u></b>				
Due to other governments	\$ 295,784	\$ 15,997,453	\$ 15,989,119	\$ 304,118
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 323,631	\$ 16,057,089	\$ 16,064,518	\$ 316,202
<b><u>Liabilities</u></b>				
Due to other governments	\$ 323,631	\$ 16,057,089	\$ 16,064,518	\$ 316,202

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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, 2012**

	<u>Number</u>	<u>Interest Rate (%)</u>	<u>Maturity Dates</u>	<u>Fair Value</u>
<b>Cash and Pooled Investments</b>				
Cash on hand and departmental checking	N/A	N/A	Continuous	\$ 3,390
Checking accounts - interest-bearing	Two	0.10 to 0.15	Continuous	784,705
Money market savings	Seven	0.20 to 0.50	Continuous	5,686,241
Certificates of deposit	Fourteen	0.75 to 1.65	March 11, 2013 to June 20, 2015	<u>3,965,000</u>
<b>Total Deposits and Investments</b>				<b><u>\$ 10,439,336</u></b>

**WADENA COUNTY  
WADENA, MINNESOTA**

**EXHIBIT E-2**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**Shared Revenue**

**State**

Highway users tax	\$ 2,623,499
County program aid	791,320
PERA rate reimbursement	20,825
Disparity reduction aid	53,186
Police aid	51,780
Enhanced 911	88,551
Market value credit	151,340
Mobile home market value credit	31,231
	31,231

**Total shared revenue** **\$ 3,811,732**

**Reimbursement for Services**

**State**

Minnesota Department of Human Services	\$ 595,250
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**Payments**

**Local**

Local contributions	\$ 66,430
Payments in lieu of taxes	56,069
	56,069

**Total payments** **\$ 122,499**

**Grants**

**State**

Minnesota Department/Board of	
Public Safety	\$ 200,323
Transportation	237,689
Health	125,281
Natural Resources	51,542
Human Services	777,976
Water and Soil Resources	164,376
Pollution Control Agency	55,950
Peace Officer Standards and Training Board	2,657
	2,657

**Total state** **\$ 1,615,794**

**Federal**

Department of/Agency	
Agriculture	\$ 191,553
Transportation	141,551
Health and Human Services	1,457,705
Homeland Security	624,592
	624,592

**Total federal** **\$ 2,415,401**

**Total state and federal grants** **\$ 4,031,195**

**Total Intergovernmental Revenue** **\$ 8,560,676**

**WADENA COUNTY  
WADENA, MINNESOTA**

**EXHIBIT E-3**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Morrison-Todd-Wadena Community Health Services Board Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 55,518
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	103,904
<b>Total U.S. Department of Agriculture</b>		<b>\$ 159,422</b>
<b>U.S. Department of Transportation</b>		
Passed Through City of Wadena Highway Planning and Construction (Total Highway Planning and Construction 20.205 \$30,696)	20.205	\$ 6,000
Passed Through Minnesota Department of Transportation Highway Planning and Construction (Total Highway Planning and Construction 20.205 \$30,696)	20.205	24,696
Formula Grants for Other Than Urbanized Areas	20.509	90,707
Passed Through Minnesota Department of Public Safety Highway Safety Cluster State and Community Highway Safety	20.600	4,784
Occupant Protection Incentive Grants	20.602	2,062
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	6,702
<b>Total U.S. Department of Transportation</b>		<b>\$ 134,951</b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Central Minnesota Council on Aging Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	\$ 4,517
Passed Through Community Health Information Collaborative of Duluth Immunization Cooperative Agreements	93.268	4,296
Direct Drug-Free Communities Support Program Grants	93.276	134,166
Passed Through Isanti County Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	866

**WADENA COUNTY  
WADENA, MINNESOTA**

**EXHIBIT E-3  
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Health and Human Services (Continued)</b>		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	3,592
Temporary Assistance for Needy Families Cluster		
Temporary Assistance for Needy Families	93.558	245,252
(Total Temporary Assistance for Needy Families 93.558 \$272,951)		
Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program - ARRA	93.714	25,332
Child Support Enforcement	93.563	272,688
Refugee and Entrant Assistance - State-Administered Programs	93.566	124
Child Care and Development Block Grant	93.575	6,420
Stephanie Tubbs Jones Child Welfare Services Program	93.645	7,182
Foster Care Title IV-E	93.658	23,213
Social Services Block Grant	93.667	132,830
Chafee Foster Care Independence Program	93.674	250
Children's Health Insurance Program	93.767	33
Medical Assistance Program	93.778	477,600
(Total Medical Assistance Program 93.778 \$520,347)		
Passed Through Morrison-Todd-Wadena Community Health Services Board		
Public Health Emergency Preparedness	93.069	10,965
PPHF 2012: Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by 2012		
Prevention and Public Health Funds	93.531	9,105
Temporary Assistance for Needy Families	93.558	27,699
(Total Temporary Assistance for Needy Families 93.558 \$272,951)		
Maternal and Child Health Services Block Grant to the States	93.994	19,096
Medical Assistance Program	93.778	42,747
(Total Medical Assistance Program 93.778 \$520,347)		
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 1,447,973</b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ 23,677
Homeland Security Grant Program	97.067	2,581
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 26,258</b>
<b>Total Federal Awards</b>		<b>\$ 1,768,604</b>

**WADENA COUNTY  
WADENA, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

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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, 2012. 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 or changes in net position 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	\$ 6,846
Temporary Assistance for Needy Families Cluster	298,283

**WADENA COUNTY  
WADENA, MINNESOTA**

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5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$	2,415,401
Grants received more than 60 days after year-end, deferred in 2012		
Foster Care - Title IV-E (CFDA #93.658)		83
Social Services Block Grant (CFDA #93.667)		11,183
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA #97.036)		145,813
Formula Grants for Other Than Urbanized Areas (CFDA #20.509)		24,888
Temporary Assistance for Needy Families (CFDA #93.558)		594
Child Care and Development Block Grant (CFDA #93.575)		182
Grants deferred in 2011, recognized as revenue in 2012		
Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA #10.557)		(32,131)
Medical Assistance Program (CFDA #93.778)		(17,080)
Emergency Management Performance Grants (CFDA #97.042)		(15,665)
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA #97.036)		(728,482)
Formula Grants for Other Than Urbanized Areas (CFDA #20.509)		(31,488)
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers (CFDA #93.044)		(1,265)
Temporary Assistance for Needy Families (CFDA #93.558)		(3,429)
		(3,429)
Expenditures per Schedule of Expenditures of Federal Awards	\$	1,768,604

6. Subrecipients

The County did not pass any federal awards through to subrecipients during the year ended December 31, 2012.

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, 2012**

**I. SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

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

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: **Unmodified**

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

The major programs are:

Temporary Assistance for Needy Families Cluster	
Temporary Assistance for Needy Families	CFDA #93.558
Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program - ARRA	CFDA #93.714
Social Services Block Grant	CFDA #93.667
Medical Assistance Program	CFDA #93.778

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

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

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

### INTERNAL CONTROL

#### PREVIOUSLY REPORTED ITEMS NOT RESOLVED

##### 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 County indicated that it has not reviewed procedures in every department to ensure duties are adequately segregated.

**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:

*Wadena County will review internal control procedures, including segregation of duties, in all departments of the County and will modify procedures, if possible due to limited staff, and establish oversight procedures to ensure that the policies and procedures are being followed by staff.*

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 provide 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, we noted that an adjustment was made to the General Fund budget without presenting the change to the County Board for approval, and an adjustment to the General Fund budget was approved by the County Board but not entered into the financial system.

**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. Due to the adjustments made to the General Fund budget, the County's financial system does not match the Board-approved budget.

**Effect:** It is unclear if the County Board intended to approve the amounts and, therefore, authorize expenditures specific to the Transit Special Revenue Fund. The 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 review of the detailed budget spreadsheet to 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:

*Wadena County staff has corrected this issue in 2013; it is my understanding that, in 2012, the Human Services Department was waiting for Minnesota Department of Transportation (MNDOT) approval of the Transit Special Revenue Fund budget and staff subsequently, inadvertently, failed to bring this budget to the Board of Commissioners for approval.*

## ITEMS ARISING THIS YEAR

### 12-1 Network/Application Password Controls

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

**Condition:** In 2012, Wadena County updated to a new version of the Integrated Financial System (IFS) application software. This application was written as a web-based application and may be run on a server or a mainframe system. For an employee of Wadena County to access the new IFS application, the user must be signed on to the County network and have a current sign-on for the IFS application. The sign-on differs from the sign-on for the IBM I Series system, so the mainframe security settings do not apply to the application. Wadena has not reviewed the network controls or assessed risks from the change to a web-based application to ensure password controls are working as intended.

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

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

**Cause:** Wadena County recently updated to a new web-based version of the IFS application software. County management was not aware of some of the password implications of this change.

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

#### Client's Response:

*In order to protect County data, Wadena County will review password controls, and implement changes, to ensure that access to the IFS software application is limited.*

## 12-2 Timeliness of Preparation of Financial Statements

**Criteria:** Management is responsible for preparing the County's financial statements in accordance with generally accepted accounting principles (GAAP) and U.S. Office of Management and Budget (OMB) Circular A-133. The financial statement preparation in accordance with GAAP and OMB Circular A-133 requires internal control over both: (1) recording, processing, and summarizing accounting data (that is, maintaining internal books and records); and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

**Condition:** Certain information needed for financial reporting was not prepared by County staff in advance of the audit. Although County staff attempted to provide information as timely as possible during the audit, there were delays in obtaining information requested. Capital assets were not available until September 12, 2013, and the detail of interfund accruals was not available until September 17, 2013.

**Context:** Preparation of information included in the County's financial statements is performed by the County Auditor/Treasurer's Office. That information is to be provided to the Office of the State Auditor in the time, form, and manner to finalize the audit in order to meet the County's September 30 single audit deadline.

**Effect:** Delays in completing the County's financial statements within a reasonable amount of time.

**Cause:** Certain financial information necessary for the County's financial statements was not completed prior to the audit.

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

### Client's Response:

*Wadena County had substantially completed the Fixed Assets portion of the Balance Sheet in November 2012. Subsequently, the Highway Accountant and the Auditor/Treasurer resigned; there was a significant amount of time until new staff was in place; existing staff were covering the duties of the absent staff in addition to their own duties. Further, there was a learning curve for the new staff, as well as a Fixed Asset computer program issue, discovered in March 2013 that was not resolved until the end of July 2013. The initial slow response time from the vendor, as well as the months of inability to work on Fixed Assets and related accounts was extremely frustrating for*

*Wadena County staff. The five month wait for a resolution for this issue was the major cause of the delay of the financial statement preparations. Prior to their initial site visit, the Audit Team was notified of the situation. All efforts were made to accommodate the requests of the Audit Team and we regret any inconvenience to them; the County does not foresee a reoccurrence of this issue in 2013.*

### **III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

#### **ITEM ARISING THIS YEAR**

##### **12-3 Eligibility Testing**

**Program:** U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778)

**Pass-Through Agency:** Minnesota Department of Human Services and Morrison-Todd-Wadena Community Health Services Board

**Criteria:** OMB Circular A-133 § .300(b) states that the auditee shall maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

**Condition:** The state maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. While periodic supervisory case reviews are performed to provide reasonable assurance of compliance with grant requirements for eligibility, not all documentation was available to support participant eligibility. In other circumstances, information was input into MAXIS incorrectly. The following instances were noted in our sample of 40 cases tested:

- One case did not have verification of asset requirements. For this case, the most recent bank account balance was not properly updated in MAXIS due to a data entry error.
- One case did not have verification of citizenship. The MAXIS system indicated this was verified by a birth certificate; however, there was no birth certificate in the case file.
- One case did not have documentation to substantiate eligibility was re-determined every 12 months.

**Questioned Costs:** Not applicable. The County administers the program, but benefits to participants in this program are paid by the State of Minnesota.

**Context:** The State of Minnesota contracts with the County to perform the “intake function” (meeting with the social services client to determine income and categorical eligibility), while the state maintains the computer systems supporting the eligibility determination process and actually pays the benefits to participants.

**Effect:** The improper input of information into MAXIS and lack of follow-up of issues increases the risk that clients will receive benefits when they are not eligible.

**Cause:** Program personnel entering case information into MAXIS did not ensure all required information was input into MAXIS correctly or that all required information was obtained and/or retained.

**Recommendation:** We recommend that the County implement review procedures to provide reasonable assurance that all necessary documentation to support an eligibility determination is obtained. In addition, consideration should be given to providing additional training to program personnel.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Paul Sailer, Human Services Director*

Corrective Action Planned:

*The Wadena County Human Services staff will review five public assistance cases per month for each eligibility worker and will review regularly with staff changes in programs.*

Anticipated Completion Date:

*Ongoing.*

PREVIOUSLY REPORTED ITEMS RESOLVED

**Supervisory Review Over Reporting (11-2)**

During our testing of controls over Temporary Assistance for Needy Families, State Administered Matching Grants for Supplemental Nutrition Assistance Program, and Child Support Enforcement grants, we noted no documented review process over reporting of expenditures on the Department of Human Services (DHS): DHS-2902, DHS-2550, and DHS-2556 quarterly reports.

**Resolution**

During 2012, Wadena County implemented a review process for reports submitted to granting agencies for reimbursement. During the 2012 audit, we noted the DHS-2902, DHS-2550, and DHS-2556 quarterly reports were reviewed and signed by the Director.

**Income Maintenance DHS-2550 Reporting (11-3)**

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.

**Resolution**

During our testing of DHS-2550 quarterly reports during 2012, we noted all IMRMS participants were properly reported as IMRMS employees under Section A of the report.





REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
state.auditor@state.mn.us (E-mail)  
1-800-627-3529 (Relay Service)

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

### Independent Auditor's Report

Board of County Commissioners  
Wadena County

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wadena County, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 30, 2013.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Wadena County's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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. 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 the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 98-1, 11-1, 12-1, and 12-2, that we consider to be significant deficiencies.

### **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**

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because Wadena County does not have any tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that Wadena County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

## **Other Matters**

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

## **Purpose of This Report**

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 30, 2013

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
state.auditor@state.mn.us (E-mail)  
1-800-627-3529 (Relay Service)

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

### Independent Auditor's Report

Board of County Commissioners  
Wadena County

### **Report on Compliance for Each Major Federal Program**

We have audited Wadena County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2012. 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.

#### ***Management's Responsibility***

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

#### ***Auditor's Responsibility***

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

occurred. An audit includes examining, on a test basis, evidence about 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

### ***Opinion on Each Major Federal Program***

In our opinion, Wadena County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

### **Report on Internal Control Over Compliance**

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

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

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

material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 12-3, that we consider to be a significant deficiency.

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

### **Purpose of This Report**

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 30, 2013