

# STATE OF MINNESOTA

## Office of the State Auditor



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

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

**YEAR ENDED DECEMBER 31, 2010**

## **Description of the Office of the State Auditor**

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits of local governments;

**Government Information** - collects and analyzes financial information for cities, towns, counties, and special districts;

**Legal/Special Investigations** - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

**Pension** - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

**Tax Increment Financing** - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**WADENA COUNTY  
WADENA, MINNESOTA**

**Year Ended December 31, 2010**



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

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**WADENA COUNTY  
WADENA, MINNESOTA**

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**WADENA COUNTY  
WADENA, MINNESOTA**

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**WADENA COUNTY  
WADENA, MINNESOTA**

**ORGANIZATION  
DECEMBER 31, 2010**

<u>Office</u>	<u>Name</u>	<u>District</u>	<u>Term Expires</u>
<b>Elected</b>			
<b>Commissioners</b>			
Board Member	Lane Waldahl	District 1	January 2011
Board Member	Ralph Miller	District 2	January 2013
Chair	William Stearns	District 3	January 2011
Vice Chair	Rodney Bounds	District 4	January 2013
Board Member	David Schermerhorn	District 5	January 2011
Attorney	Kyra Ladd		January 2011
Auditor/Treasurer	Charleen West		January 2011
County Recorder	Soledad Henriksen		January 2011
Registrar of Titles	Soledad Henriksen		January 2011
County Sheriff	Michael D. Carr		January 2011
<b>Appointed</b>			
Assessor	Lee Brekke		December 2012
County Engineer	Ryan Odden		May 2011
Coroner	Tim B. Schmitt, M.D.		Indefinite
Community Corrections Officer	Kathryn Langer		Indefinite
Social Services Director	Paul Sailer		Indefinite
Veterans Services Officer	David Anderson		April 2013

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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## INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Wadena County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wadena County, Minnesota, as of and for the year ended December 31, 2010, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Wadena County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Wadena County as of December 31, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated September 27, 2011, on our consideration of Wadena County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 27, 2011

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

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**WADENA COUNTY  
WADENA, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010  
(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, 2010. 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 \$42,772,643 at the close of 2010. Of this amount, \$6,500,790 (unrestricted net assets) may be used to meet Wadena County's ongoing obligations to citizens and creditors.
- At the close of 2010, Wadena County's governmental funds reported combined ending fund balances of \$6,833,317, an increase of \$2,034,496, in comparison with the prior year. Of the total fund balance, \$5,205,993 is available for spending at the County's discretion and is noted as unreserved fund balance.
- At the close of 2010, unreserved fund balance for the General Fund was \$1,484,980, or 24.6 percent, of total General Fund expenditures.
- Wadena County currently does not have any bonded indebtedness.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**Government-Wide Financial Statements**

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

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

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

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

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 seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the General Fund, Road and Bridge Special Revenue Fund, Social Services Special Revenue Fund, and Solid Waste Special Revenue Fund, all of which are considered to be major funds. Data from the other 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 assets and a statement of changes in fiduciary net assets. These activities are excluded from the government-wide financial statements because the County cannot use these assets to finance its operations.

### **Note to the Financial Statements**

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

### **Other Information**

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

Wadena County adopts an annual appropriated budget for its General Fund and major special revenue funds. To demonstrate compliance with these budgets, budgetary comparison statements have been provided as required supplemental information for the County's major funds. Wadena County also budgets for the Public Health Special Revenue Fund and the Solid Waste Special Revenue Fund, which are nonmajor funds, as supplemental information. The Tax Forfeited Land and Transit Special Revenue Funds are not budgeted for.

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

Over time, net assets serve as a useful indicator of the County's financial position. Wadena County's assets exceeded liabilities by \$42,772,643 at the close of 2010. The largest portion of Wadena County's net assets (81.3 percent) reflects its investment in capital assets (land, infrastructure, buildings, and equipment). However, it should be noted that these assets are not available for future spending.

**Governmental Net Assets**

	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 10,016,451	\$ 7,528,555
Capital assets	<u>34,780,142</u>	<u>32,956,541</u>
Total Assets	<u>\$ 44,796,593</u>	<u>\$ 40,485,096</u>
Long-term liabilities outstanding	\$ 981,568	\$ 955,780
Other liabilities	<u>1,042,382</u>	<u>1,245,485</u>
Total Liabilities	<u>\$ 2,023,950</u>	<u>\$ 2,201,265</u>
Net Assets		
Invested in capital assets	\$ 34,780,142	\$ 32,956,541
Restricted	1,491,711	1,420,439
Unrestricted	<u>6,500,790</u>	<u>3,906,851</u>
Total Net Assets	<u><u>\$ 42,772,643</u></u>	<u><u>\$ 38,283,831</u></u>

The unrestricted net asset amount of \$6,500,790 as of December 31, 2010, may be used to meet the County's ongoing obligations to citizens and creditors.

**Governmental Activities**

Wadena County's activities increased net assets by \$4,488,812, or 11.7 percent, over the 2009 net assets. The key element of the increase in net assets was the increase invested in unrestricted net assets by \$2,593,939 for the General Fund, Social Services Fund, and Road and Bridge Fund.

**Changes in Net Assets**

	<u>2010</u>	<u>2009</u>
Revenues		
Program revenues		
Charges for services	\$ 3,089,882	\$ 2,262,499
Operating grants and contributions	7,916,567	7,250,518
Capital grants and contributions	739,552	1,046,274
General revenues		
Property taxes	6,845,747	6,652,909
Other taxes	40,549	40,605
Grants and contributions not restricted to specific programs	1,558,192	1,803,588
Other	<u>785,124</u>	<u>121,616</u>
Total Revenues	<u>\$ 20,975,613</u>	<u>\$ 19,178,009</u>

	<u>2010</u>	<u>2009</u>
Expenses		
General government	\$ 3,164,831	\$ 2,806,803
Public safety	2,506,575	2,117,873
Highways and streets	2,460,664	2,581,119
Sanitation	1,239,817	1,074,468
Human services	5,405,280	5,721,518
Health	1,295,621	1,227,975
Culture and recreation	203,635	192,013
Conservation of natural resources	210,378	209,604
Economic development	-	4,453
	<u>16,486,801</u>	<u>15,935,826</u>
Total Expenses	\$ 16,486,801	\$ 15,935,826
Increase in Net Assets	\$ 4,488,812	\$ 3,242,183
Net Assets, January 1	<u>38,283,831</u>	<u>35,041,648</u>
Net Assets, December 31	<u>\$ 42,772,643</u>	<u>\$ 38,283,831</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, unreserved 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 \$6,833,317, an increase of \$2,034,496 in comparison with the prior year. The unreserved fund balance in the amount of \$5,205,993 is available for spending at the County's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed.

The General Fund is the chief operating fund of Wadena County. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$1,484,980, while total fund balance was \$2,792,316. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 24.6 percent of total General Fund expenditures. In 2010, fund balance in the General Fund increased by \$966,552. This increase was due to excess revenues over expenditures of \$502,743 and compensation for loss on capital assets of \$663,594 offset by transfers out of \$199,785.

In 2009, the General Fund had excess revenues over expenditures of \$568,809. The \$66,066 decline in excess revenues over expenditures is due to a decline in charges for services of \$34,849; a decline in fines and fees of \$25,853; increased governmental expense of \$490,862 (unallocated \$227,417, data processing \$72,182, and recorder \$83,294); increased public safety expense of \$387,405 (sheriff \$299,317 and jail \$77,628); and increased culture and recreation of \$11,622, offset by increased taxes of \$388,926 and increased intergovernmental revenue of \$498,656.

The Road and Bridge Fund's fund balance increased \$212,347, due to excess revenues over expenditures of \$185,531 and an increase in inventory of \$26,816. In 2009, the Road and Bridge Fund had excess revenues over expenditures of \$547,797. The \$362,266 reduction in excess revenues over expenditures is due to a decrease in taxes of \$71,443; a decrease in intergovernmental revenue of \$1,386,455 (user tax down \$647,151, shared revenue down \$712,461, and federal grants Highway Planning and Construction down \$596,760), offset by an increase in miscellaneous revenue of \$93,301 and a decrease in expenses of \$1,008,553 (construction decreased \$1,351,495, maintenance increased \$283,299).

The Social Services Fund's fund balance increased \$903,406, due to excess revenues over expenditures. In 2009, the Social Services Fund had excess revenues over expenditures of \$553,610. The \$349,796 improvement in excess revenues over expenditures is due to an increase in miscellaneous revenue of \$333,452 (contract processing), a decrease in expenditures of \$167,817, offset by a decrease in intergovernmental revenue of \$153,058 (mainly reimbursement for services).

### **General Fund Budgetary Highlights**

The difference between the General Fund original budget and the final amended budget was a net change of \$24,170. The difference between the actual amounts and the final amended budget was a net difference of \$851,484. The main revenue variance was due to a decrease in property taxes and an increase in intergovernmental revenues. The main expenditure variances were due to increased public safety expenses.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

The County's investment in capital assets for its governmental activities as of December 31, 2010, was \$34,780,142 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The County's investment in capital assets for the current fiscal year increased 5.5 percent. The net increase was attributed to the County's investment in its infrastructure.

### Governmental Capital Assets

	<u>2010</u>	<u>2009</u>
Land and construction in progress	\$ 993,524	\$ 3,587,709
Infrastructure	30,881,158	26,510,721
Buildings	1,470,401	1,554,020
Furniture, equipment, and machinery	<u>1,435,059</u>	<u>1,304,091</u>
Total	<u>\$ 34,780,142</u>	<u>\$ 32,956,541</u>

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

### Long-Term Debt

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

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

- Wadena County's unemployment rate was 10.3 percent at the end of 2010 compared to the statewide rate of 6.8 percent for the same time period.
- Wadena County is not subject to levy limits for 2012.
- Wadena County's property tax delinquency was 3.92 percent at the end of 2010, which is down from the previous year's delinquent rate of 4.35 percent.
- Wadena County was subject to un-allotments in 2011 of State County Program Aid and Market Value Credits totaling \$525,054. The Board of Commissioners approved a Final Payable 2011 Levy that replaced this loss in state aids through special levies. In July 2011, the State Legislature eliminated levy limits and special levy authority for the Payable 2012 Tax Levy; they also approved a new Homestead Market Value (HMV) Exclusion to replace the Homestead Market Value Credit (HMVC). The state is estimating that the change from HMVC to HMV Exclusion will increase Wadena County's net tax capacity rate from 78.79 percent to 87.9 percent, thus reflecting a property tax increase to the majority of Wadena County taxpayers. The Wadena County Commissioners approved a Preliminary Payable 2012 Tax Levy that did not increase over the Payable 2012 Tax Levy.

Wadena County was hit by an F4 tornado on June 17, 2010, which resulted in an estimated cost to the County of \$1.5 to \$2 million. It is anticipated that 100 percent of this expense will be paid by insurance, FEMA, and state funds.

## **REQUESTS FOR INFORMATION**

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

## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**WADENA COUNTY  
WADENA, MINNESOTA**

**EXHIBIT 1**

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

**Assets**

Cash and pooled investments	\$	6,467,374
Petty cash and change funds		3,390
Taxes receivable		
Current		240,510
Prior		183,080
Special assessments receivable		
Current		20,741
Prior		16,345
Accounts receivable		225,766
Accrued interest receivable		6,252
Due from other governments		2,110,767
Advances receivable		118,750
Inventories		160,851
Investment in joint venture		462,625
Capital assets		
Non-depreciable		993,524
Depreciable - net of accumulated depreciation		33,786,618
		33,786,618
<b>Total Assets</b>	<b>\$</b>	<b>44,796,593</b>

**Liabilities**

Accounts payable	\$	452,136
Salaries payable		303,705
Contracts payable		35,157
Due to other governments		169,652
Customer deposits		1,000
Unearned revenue		80,732
Long-term liabilities		
Due within one year		462,931
Due in more than one year		518,637
		518,637
<b>Total Liabilities</b>	<b>\$</b>	<b>2,023,950</b>

**Net Assets**

Invested in capital assets	\$	34,780,142
Restricted for		
General government		712,467
Public safety		110,205
Highways and streets		594,145
Culture and recreation		18,153
Conservation of natural resources		56,741
Unrestricted		6,500,790
		6,500,790
<b>Total Net Assets</b>	<b>\$</b>	<b>42,772,643</b>

**WADENA COUNTY  
WADENA, MINNESOTA**

*EXHIBIT 2*

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

	<b>Program Revenues</b>			<b>Net (Expense)</b>	
<b>Expenses</b>	<b>Fees, Charges, Fines, and Other</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Revenue and Changes in Net Assets</b>	
<b><u>Functions/Programs</u></b>					
<b>Primary government</b>					
<b>Governmental activities</b>					
General government	\$ 3,164,831	\$ 329,359	\$ 118,204	\$ -	\$ (2,717,268)
Public safety	2,506,575	139,536	778,600	-	(1,588,439)
Highways and streets	2,460,664	71,266	2,448,969	739,552	799,123
Sanitation	1,239,817	649,718	501,904	-	(88,195)
Human services	5,405,280	1,544,151	3,057,723	-	(803,406)
Health	1,295,621	337,620	813,789	-	(144,212)
Culture and recreation	203,635	17,010	78,000	-	(108,625)
Conservation of natural resources	210,378	1,222	119,378	-	(89,778)
<b>Total Governmental Activities</b>	<b><u>\$ 16,486,801</u></b>	<b><u>\$ 3,089,882</u></b>	<b><u>\$ 7,916,567</u></b>	<b><u>\$ 739,552</u></b>	<b><u>\$ (4,740,800)</u></b>
 <b>General Revenues</b>					
Property taxes				\$ 6,845,747	
Mineral taxes				96	
Other taxes				75	
Payments in lieu of tax				40,378	
Grants and contributions not restricted to specific programs				1,558,192	
Unrestricted investment earnings				62,152	
Miscellaneous				59,378	
Compensation for loss of general capital assets				663,594	
<b>Total general revenues</b>				<b><u>\$ 9,229,612</u></b>	
<b>Change in Net Assets</b>					<b><u>\$ 4,488,812</u></b>
<b>Net Assets - Beginning</b>					<b><u>38,283,831</u></b>
<b>Net Assets - Ending</b>					<b><u>\$ 42,772,643</u></b>

**FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

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**WADENA COUNTY  
WADENA, MINNESOTA**

**EXHIBIT 5**

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>					
Taxes	\$ 4,138,069	\$ 1,201,674	\$ 1,531,816	\$ 8,055	\$ 6,879,614
Special assessments	-	-	-	416,178	416,178
Licenses and permits	41,070	-	-	24,239	65,309
Intergovernmental	1,851,981	3,128,029	3,224,187	1,128,247	9,332,444
Charges for services	247,783	-	-	931,632	1,179,415
Fines and forfeits	27,446	-	-	-	27,446
Gifts and contributions	11,673	-	-	-	11,673
Investment earnings	61,496	-	-	501	61,997
Miscellaneous	166,883	146,991	1,174,808	71,985	1,560,667
<b>Total Revenues</b>	<b>\$ 6,546,401</b>	<b>\$ 4,476,694</b>	<b>\$ 5,930,811</b>	<b>\$ 2,580,837</b>	<b>\$ 19,534,743</b>
<b>Expenditures</b>					
<b>Current</b>					
General government	\$ 3,173,052	\$ -	\$ -	\$ -	\$ 3,173,052
Public safety	2,455,114	-	-	-	2,455,114
Highways and streets	-	4,136,087	-	-	4,136,087
Sanitation	-	-	-	1,207,368	1,207,368
Human services	-	-	5,027,405	351,149	5,378,554
Health	-	-	-	1,269,914	1,269,914
Culture and recreation	203,635	-	-	-	203,635
Conservation of natural resources	211,857	-	-	-	211,857
<b>Intergovernmental</b>	<b>-</b>	<b>155,076</b>	<b>-</b>	<b>-</b>	<b>155,076</b>
<b>Total Expenditures</b>	<b>\$ 6,043,658</b>	<b>\$ 4,291,163</b>	<b>\$ 5,027,405</b>	<b>\$ 2,828,431</b>	<b>\$ 18,190,657</b>
<b>Excess of Revenues Over (Under)</b>					
<b>Expenditures</b>	<b>\$ 502,743</b>	<b>\$ 185,531</b>	<b>\$ 903,406</b>	<b>\$ (247,594)</b>	<b>\$ 1,344,086</b>
<b>Other Financing Sources (Uses)</b>					
Transfers in	\$ -	\$ -	\$ -	\$ 199,785	\$ 199,785
Transfers out	(199,785)	-	-	-	(199,785)
Compensation for loss of general capital assets	663,594	-	-	-	663,594
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 463,809</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 199,785</b>	<b>\$ 663,594</b>
<b>Net Change in Fund Balance</b>	<b>\$ 966,552</b>	<b>\$ 185,531</b>	<b>\$ 903,406</b>	<b>\$ (47,809)</b>	<b>\$ 2,007,680</b>
<b>Fund Balance - January 1</b>	<b>1,825,764</b>	<b>1,405,183</b>	<b>736,247</b>	<b>831,627</b>	<b>4,798,821</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>26,816</b>	<b>-</b>	<b>-</b>	<b>26,816</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,792,316</b>	<b>\$ 1,617,530</b>	<b>\$ 1,639,653</b>	<b>\$ 783,818</b>	<b>\$ 6,833,317</b>

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

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**WADENA COUNTY  
WADENA, MINNESOTA**

**EXHIBIT 4**

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

<b>Fund balances - total governmental funds (Exhibit 3)</b>	<b>\$ 6,833,317</b>
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	34,780,142
Investment in joint venture is not available to pay for current period expenditures and, therefore, is not reported in the governmental funds.	462,625
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	1,678,127
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Compensated absences	\$ (810,057)
Net OPEB liability	(171,511)
	<u>(981,568)</u>
<b>Net Assets of Governmental Activities (Exhibit 1)</b>	<b><u><u>\$ 42,772,643</u></u></b>

**WADENA COUNTY  
WADENA, MINNESOTA**

*EXHIBIT 3*

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

	<b>General</b>	<b>Road and Bridge</b>	<b>Social Services</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b><u>Assets</u></b>					
Cash and pooled investments	\$ 2,522,406	\$ 1,218,273	\$ 1,790,406	\$ 755,438	\$ 6,286,523
Petty cash and change funds	2,700	100	200	390	3,390
Undistributed cash in agency funds	106,408	27,124	33,626	13,693	180,851
Taxes receivable					
Current	144,123	42,333	54,054	-	240,510
Prior	101,584	37,407	44,089	-	183,080
Special assessments receivable					
Current	-	-	-	20,741	20,741
Prior	-	-	-	16,345	16,345
Accounts receivable	3,039	323	126,273	96,131	225,766
Accrued interest receivable	6,220	-	-	32	6,252
Due from other funds	12,865	40,741	16,191	17,171	86,968
Due from other governments	94,135	1,229,646	405,484	374,745	2,104,010
Inventories	-	160,851	-	-	160,851
Advances to other funds	394,750	12,500	36,250	13,750	457,250
	<b>\$ 3,388,230</b>	<b>\$ 2,769,298</b>	<b>\$ 2,506,573</b>	<b>\$ 1,308,436</b>	<b>\$ 9,972,537</b>
<b>Total Assets</b>	<b>\$ 3,388,230</b>	<b>\$ 2,769,298</b>	<b>\$ 2,506,573</b>	<b>\$ 1,308,436</b>	<b>\$ 9,972,537</b>
 <b><u>Liabilities and Fund Balances</u></b>					
<b>Liabilities</b>					
Accounts payable	\$ 98,506	\$ 53,520	\$ 261,030	\$ 39,080	\$ 452,136
Salaries payable	120,034	59,512	71,288	52,871	303,705
Contracts payable	-	35,157	-	-	35,157
Due to other funds	42,485	1,357	18,965	22,407	85,214
Due to other governments	84,076	3,953	24,822	51,798	164,649
Advances from other funds	-	-	337,500	1,000	338,500
Customer deposits	-	1,000	-	-	1,000
Deferred revenue - unavailable	229,386	997,269	153,315	298,157	1,678,127
Deferred revenue - unearned	21,427	-	-	59,305	80,732
	<b>\$ 595,914</b>	<b>\$ 1,151,768</b>	<b>\$ 866,920</b>	<b>\$ 524,618</b>	<b>\$ 3,139,220</b>
<b>Total Liabilities</b>	<b>\$ 595,914</b>	<b>\$ 1,151,768</b>	<b>\$ 866,920</b>	<b>\$ 524,618</b>	<b>\$ 3,139,220</b>

**WADENA COUNTY  
WADENA, MINNESOTA**

**EXHIBIT 3  
(Continued)**

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

	<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>					
Reserved for					
Advances to other funds	\$ 394,750	\$ 12,500	\$ 36,250	\$ 13,750	\$ 457,250
Inventories	-	160,851	-	-	160,851
Utility deposits	-	500	-	-	500
Emergency management	479	-	-	-	479
SCORE	-	-	-	57,324	57,324
State-aid highway projects	-	38,813	-	-	38,813
Missing heirs	15,020	-	-	-	15,020
Law library	3,310	-	-	-	3,310
Recorder's equipment	60,376	-	-	-	60,376
Sheriff's contingency	5,000	-	-	-	5,000
Enhanced 911	87,953	-	-	-	87,953
Compliance fund	112,589	-	-	-	112,589
Attorney's forfeited property	27,324	-	-	-	27,324
Gun permits	16,773	-	-	-	16,773
Help America Vote Act	55,981	-	-	-	55,981
Individual Sewage Treatment Systems	45,964	-	-	-	45,964
Parks	18,153	-	-	-	18,153
Shoreline grant	10,383	-	-	-	10,383
Timber development	394	-	-	-	394
Building fund	452,887	-	-	-	452,887
Unreserved					
Designated for future expenditures	118,829	-	-	-	118,829
Designated for cash flows	1,366,151	200,000	952,000	-	2,518,151
Designated for capital equipment	-	98,458	-	-	98,458
Designated for mental health initiative	-	-	175,306	-	175,306
Designated for peer center	-	-	1,130	-	1,130
Designated for gravel stockpile	-	68,609	-	-	68,609
Designated for County road construction	-	150,000	-	-	150,000
Undesignated	-	887,799	474,967	-	1,362,766
Unreserved, reported in nonmajor					
Special revenue funds	-	-	-	712,744	712,744
<b>Total Fund Balances</b>	<b>\$ 2,792,316</b>	<b>\$ 1,617,530</b>	<b>\$ 1,639,653</b>	<b>\$ 783,818</b>	<b>\$ 6,833,317</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 3,388,230</b>	<b>\$ 2,769,298</b>	<b>\$ 2,506,573</b>	<b>\$ 1,308,436</b>	<b>\$ 9,972,537</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, 2010**

**Net change in fund balance - total governmental funds (Exhibit 5) \$ 2,007,680**

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	\$ 1,678,127	
Deferred revenue - January 1	<u>(1,212,213)</u>	465,914

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

Expenditures for general capital assets and infrastructure	\$ 3,133,531	
Current year depreciation	<u>(1,309,930)</u>	1,823,601

In the statement of net assets, an asset is reported for the equity interest in joint ventures. The change in net assets differs from the change in fund balance by the increases and decreases in the investment in joint venture. 288,589

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	\$ (73,685)	
Change in inventories	26,816	
Net OPEB liability	<u>(50,103)</u>	<u>(96,972)</u>

**Change in Net Assets of Governmental Activities (Exhibit 2) \$ 4,488,812**

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**FIDUCIARY FUNDS**

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**WADENA COUNTY  
WADENA, MINNESOTA**

*EXHIBIT 7*

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

	<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	\$ 137,531	\$ 317,717	\$ 166,306
Receivables			
Accounts	1,414	-	-
Interest	86	-	-
Due from other funds	-	5,003	-
	<hr/>	<hr/>	<hr/>
<b>Total Assets</b>	<b>\$ 139,031</b>	<b>\$ 322,720</b>	<b>\$ 166,306</b>
	<hr/>	<hr/>	<hr/>
<b><u>Liabilities</u></b>			
Accounts payable	\$ -	\$ 7,363	\$ -
Due to other funds	6,757	-	-
Due to other governments	-	-	166,306
Deferred revenue - unavailable	1,414	-	-
Advances from governmental funds	-	118,750	-
	<hr/>	<hr/>	<hr/>
<b>Total Liabilities</b>	<b>\$ 8,171</b>	<b>\$ 126,113</b>	<b>\$ 166,306</b>
	<hr/>	<hr/>	<hr/>
<b><u>Net Assets</u></b>			
Net assets, held in trust for pool participants	\$ 130,860	\$ -	
Net assets, held in trust for employees	-	196,607	
	<hr/>	<hr/>	
<b>Total Net Assets</b>	<b>\$ 130,860</b>	<b>\$ 196,607</b>	
	<hr/>	<hr/>	

**WADENA COUNTY  
WADENA, MINNESOTA**

*EXHIBIT 8*

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<b>Family Service Collaborative Investment Trust</b>	<b>Health Reimbursement Employee Benefit Trust</b>
	<hr/>	<hr/>
<b><u>Additions</u></b>		
Contributions from employers	\$ -	\$ 120,417
Contributions from participants	61,736	-
Investment earnings		
Interest	1,277	-
	<hr/>	<hr/>
<b>Total Additions</b>	<b>\$ 63,013</b>	<b>\$ 120,417</b>
<b><u>Deductions</u></b>		
Benefit payments	\$ -	\$ 83,854
Pool participant withdrawals	68,361	-
	<hr/>	<hr/>
<b>Total Deductions</b>	<b>\$ 68,361</b>	<b>\$ 83,854</b>
<b>Change in Net Assets</b>	<b>\$ (5,348)</b>	<b>\$ 36,563</b>
<b>Net Assets - Beginning of the Year</b>	<b>136,208</b>	<b>160,044</b>
	<hr/>	<hr/>
<b>Net Assets - End of the Year</b>	<b>\$ 130,860</b>	<b>\$ 196,607</b>
	<hr/> <hr/>	<hr/> <hr/>

**WADENA COUNTY  
WADENA, MINNESOTA**

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

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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, 2010. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Wadena County was established June 11, 1858, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

**WADENA COUNTY  
WADENA, MINNESOTA**

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

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

**WADENA COUNTY  
WADENA, MINNESOTA**

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

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

Additionally, the County reports the following fund types:

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

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

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

C. Measurement Focus and Basis of Accounting

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

**WADENA COUNTY  
WADENA, MINNESOTA**

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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 Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2010, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2010 were \$63,429.

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 Assets or Equity

2. External Investment Pools (Continued)

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

3. Receivables and Payables

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

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve 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 Assets or Equity (Continued)

5. Restricted Assets

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

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than the capitalization threshold and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The County's capitalization threshold for capital assets is as follows:

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. During the current period, the County did not have any capitalized interest.

**WADENA COUNTY  
WADENA, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

6. Capital Assets (Continued)

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

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

7. Compensated Absences

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

8. Deferred Revenue

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

**WADENA COUNTY  
WADENA, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

9. Fund Equity

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

10. 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, 2010.

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 6,043,658	\$ 5,648,523	\$ 395,135
Public Health Nurse Special Revenue Fund	1,269,914	1,229,034	40,880
Solid Waste Special Revenue Fund	1,207,368	936,975	270,393

B. Deficit Fund Equity

The Forfeited Tax Sale Special Revenue Fund had a deficit fund balance of \$420 at December 31, 2010. The deficit will be cleared with the future sale of properties.

**WADENA COUNTY  
WADENA, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

The County's total cash and investments follows:

Governmental activities	
Cash and pooled investments	\$ 6,467,374
Petty cash and change funds	3,390
Fiduciary funds	
Cash and pooled investments	
Investment trust fund	137,531
Employee benefit trust fund	317,717
Agency funds	<u>166,306</u>
 Total Cash and Investments	 <u>\$ 7,092,318</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, 2010, 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;

**WADENA COUNTY  
WADENA, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

During the year ended December 31, 2010, the County had no investments.

2. Receivables

Receivables as of December 31, 2010, for the County's governmental activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 423,590	\$ -
Special assessments	37,086	-
Accounts	225,766	-
Interest	6,252	-
Due from other governments	2,110,767	-
Advances receivable	118,750	-
Total Governmental Activities	\$ 2,922,211	\$ -

**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, 2010, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 570,515	\$ 31,842	\$ -	\$ 602,357
Construction in progress	3,017,194	391,167	3,017,194	391,167
<b>Total capital assets not depreciated</b>	<b>\$ 3,587,709</b>	<b>\$ 423,009</b>	<b>\$ 3,017,194</b>	<b>\$ 993,524</b>
Capital assets depreciated				
Buildings	\$ 4,596,787	\$ -	\$ 38,750	\$ 4,558,037
Building improvements	142,132	-	-	142,132
Machinery, furniture, and equipment	3,818,211	442,858	104,443	4,156,626
Infrastructure	40,639,821	5,284,858	48,369	45,876,310
<b>Total capital assets depreciated</b>	<b>\$ 49,196,951</b>	<b>\$ 5,727,716</b>	<b>\$ 191,562</b>	<b>\$ 54,733,105</b>
Less: accumulated depreciation for				
Buildings	\$ 3,181,346	\$ 76,512	\$ 38,750	\$ 3,219,108
Building improvements	3,553	7,107	-	10,660
Machinery, furniture, and equipment	2,514,120	311,890	104,443	2,721,567
Infrastructure	14,129,100	914,421	48,369	14,995,152
<b>Total accumulated depreciation</b>	<b>\$ 19,828,119</b>	<b>\$ 1,309,930</b>	<b>\$ 191,562</b>	<b>\$ 20,946,487</b>
<b>Total capital assets depreciated, net</b>	<b>\$ 29,368,832</b>	<b>\$ 4,417,786</b>	<b>\$ -</b>	<b>\$ 33,786,618</b>
Governmental Activities				
Capital Assets, Net	<b>\$ 32,956,541</b>	<b>\$ 4,840,795</b>	<b>\$ 3,017,194</b>	<b>\$ 34,780,142</b>

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

Governmental Activities	
General government	\$ 51,742
Public safety	66,666
Highways and streets, including depreciation of infrastructure assets	1,128,647
Sanitation	36,713
Human services	23,647
Health	2,515
<b>Total Depreciation Expense - Governmental Activities</b>	<b>\$ 1,309,930</b>

**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, 2010, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Road and Bridge	\$ 300
	Social Services	12,140
	Other governmental funds	408
	Investment Trust	17
Total due to General Fund		<u>\$ 12,865</u>
Road and Bridge	General	\$ 21,066
	Other governmental funds	19,675
Total due to Road and Bridge Fund		<u>\$ 40,741</u>
Social Services	General	\$ 13,783
	Other governmental funds	1,386
	Investment Trust	1,022
Total due to Social Services Fund		<u>\$ 16,191</u>
Other governmental funds	General	\$ 6,176
	Road and Bridge	15
	Social Services	5,262
	Investment Trust	5,718
Total due to other governmental funds		<u>\$ 17,171</u>
Employee Benefit Trust	General	\$ 1,460
	Road and Bridge	1,042
	Social Services	1,563
	Other governmental funds	938
Total due to Employee Benefit Trust Fund		<u>\$ 5,003</u>
Total Due To/From Other Funds		<u>\$ 91,971</u>

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

**WADENA COUNTY  
WADENA, MINNESOTA**

3. Detailed Notes on All Funds

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

2. Advances To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Social Services Other governmental funds Employee Benefit Trust	\$ 337,500 1,000 <u>56,250</u>
Total advances to General Fund		\$ 394,750
Road and Bridge	Employee Benefit Trust	12,500
Social Services	Employee Benefit Trust	36,250
Other governmental funds	Employee Benefit Trust	<u>13,750</u>
Total Advances To/From Other Funds		<u><u>\$ 457,250</u></u>

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, 2010. Advances were also made to the General Fund from the Social Services Special Revenue Fund for repayment of prior year advance for partial payment of the County's membership fee to the South Country Health Alliance. Another advance was made to the General Fund from the Forfeited Tax Special Revenue Fund for repayment of prior year advance for cash flows to cover expenses until parcels of land are sold.

3. Interfund Transfers

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

Transfers to other governmental funds from General Fund	<u>\$ 199,785</u>	Provide funds for County levy
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**WADENA COUNTY  
WADENA, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2010, were as follows:

	Governmental Activities
Accounts	\$ 452,136
Salaries	303,705
Contracts payable	35,157
Due to other governments	169,652
Total Payables	\$ 960,650

2. Deferred Revenues

Deferred revenues as of December 31, 2010, for the County's governmental funds are as follows:

	Deferred Unavailable	Deferred Unearned
Governmental Funds		
Taxes	\$ 326,573	\$ -
Special assessments	29,576	-
Intergovernmental revenue	1,218,869	80,732
Charges for services	44,267	-
Other	58,842	-
Total Governmental Funds	\$ 1,678,127	\$ 80,732

3. Construction Commitments

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

	Spent-to-Date	Remaining Commitment
Governmental activities		
Roads and bridges	\$ 703,146	\$ 8,583

**WADENA COUNTY  
WADENA, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. 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.

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, 2010, 56 employees had health reimbursement accounts. The County advanced \$118,750 to the Employee Benefit Trust Fund as of December 31, 2010.

5. Changes in Long-Term Liabilities

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

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Net OPEB liability	\$ 121,408	\$ 50,103	\$ -	\$ 171,511	\$ -
Compensated absences	834,372	522,767	547,082	810,057	462,931
Total Long-Term Liabilities	<u>\$ 955,780</u>	<u>\$ 572,870</u>	<u>\$ 547,082</u>	<u>\$ 981,568</u>	<u>\$ 462,931</u>

**WADENA COUNTY  
WADENA, MINNESOTA**

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4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

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

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.

**WADENA COUNTY  
WADENA, MINNESOTA**

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4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans (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 6.00 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.40 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

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

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

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
General Employees Retirement Fund	\$ 372,211	\$ 358,943	\$ 344,231
Public Employees Police and Fire Fund	61,042	59,981	51,789
Public Employees Correctional Fund	38,679	36,232	37,048

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. Employee Retirement Systems and Pension Plans (Continued)

B. Defined Contribution Plan

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

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, 2010, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 2,924	\$ 2,924
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description

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

**WADENA COUNTY  
WADENA, MINNESOTA**

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4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB) (Continued)

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 2010, there were 143 participants in the plan, including 7 retirees.

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	\$ 103,659
Interest on net OPEB obligation	5,463
Adjustment to ARC	<u>(7,359)</u>
Annual OPEB cost (expense)	\$ 101,763
Contributions made	<u>(51,660)</u>
Increase in net OPEB obligation	\$ 50,103
Net OPEB Obligation - Beginning of Year	<u>121,408</u>
Net OPEB Obligation - End of Year	<u><u>\$ 171,511</u></u>

**WADENA COUNTY  
WADENA, MINNESOTA**

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4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost for December 31, 2010, was \$101,763. The percentage of annual OPEB cost contributed to the plan was 50.8 percent, and the net OPEB obligation for 2010 was \$171,511. 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, 2008, 2009, and 2010, 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, 2008	\$ 103,659	\$ 33,607	32.4%	\$ 70,052
December 31, 2009	102,604	51,248	49.9	121,408
December 31, 2010	101,763	51,660	50.8	171,511

Funded Status and Funding Progress

As of January 1, 2008, the most recent actuarial valuation date, the plan was 0.0 percent funded. The actuarial accrued liability for benefits was \$744,542, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$744,542. The covered payroll (annual payroll of active employees covered by the plan) was \$5,568,072, and the ratio of the UAAL to the covered payroll was 13.4 percent.

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

**WADENA COUNTY  
WADENA, MINNESOTA**

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4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions

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

In the January 1, 2008, 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 9.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 8 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, 2010, was 27 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 North Central Service Cooperative (NCSC) 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 \$450,000 per claim in 2010 and 2011. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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 NCSC 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 NCSC 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 assets of the NCDPSA at that time shall be distributed to the respective member counties in proportion to their contributions.

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

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

**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.

**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)

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

Financing is provided by state grants and appropriations from its members. Wadena County, in an agent capacity, reports the cash transactions of the Wadena County Family Service Collaborative as an investment trust fund on the County's financial statements. During 2010, the County contributed \$1,600 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 2010, the County did not contribute to the Health Services Board. Separate financial information is not available.

**WADENA COUNTY  
WADENA, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

South Country Health Alliance

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

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, 2010, was \$462,625. Wadena County's share of the SCHA's net income was \$288,588. The equity interest is reported as an investment in joint venture on the government-wide statement of net assets. Changes in equity are included in the government-wide statement of activities as human services.

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

**WADENA COUNTY  
WADENA, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Central Minnesota Regional Radio Board

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

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

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

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

Complete financial information can be obtained from Central Minnesota Regional Radio Board, City of St. Cloud, Office of the Mayor, City Hall, 400 Second Street South, St. Cloud, Minnesota 56303.

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

**WADENA COUNTY  
WADENA, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

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 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, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 4,772,173	\$ 4,772,173	\$ 4,138,069	\$ (634,104)
Licenses and permits	33,660	33,660	41,070	7,410
Intergovernmental	958,078	1,009,624	1,851,981	842,357
Charges for services	269,736	269,736	247,783	(21,953)
Fines and forfeits	12,000	12,000	27,446	15,446
Gifts and contributions	-	-	11,673	11,673
Investment earnings	56,000	56,000	61,496	5,496
Miscellaneous	185,963	185,963	166,883	(19,080)
	<u>185,963</u>	<u>185,963</u>	<u>166,883</u>	<u>(19,080)</u>
<b>Total Revenues</b>	<b><u>\$ 6,287,610</u></b>	<b><u>\$ 6,339,156</u></b>	<b><u>\$ 6,546,401</u></b>	<b><u>\$ 207,245</u></b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 131,120	\$ 131,120	\$ 125,395	\$ 5,725
Courts	9,300	9,300	100	9,200
Coordinator	20,000	20,000	-	20,000
County auditor/treasurer	540,330	540,330	591,742	(51,412)
County assessor	361,869	361,869	345,456	16,413
Elections	29,775	29,775	26,362	3,413
Voter registration	1,750	1,750	902	848
Data processing	329,257	329,257	348,403	(19,146)
Central services	141,750	141,750	84,722	57,028
Help America Vote Act	1,000	1,000	6,887	(5,887)
Attorney	270,331	270,331	245,529	24,802
Law library	27,662	27,662	23,823	3,839
Contracted legal services	67,825	67,825	76,938	(9,113)
Recorder	222,500	222,500	248,628	(26,128)
Planning and zoning	129,631	124,766	141,839	(17,073)
Geographic information system and global positioning system	34,791	64,532	59,717	4,815
County buildings	157,500	157,500	93,796	63,704
Buildings and plant	448,893	448,893	353,261	95,632
Veterans service officer	48,560	48,560	51,929	(3,369)
Other general government	225	225	225	-
Unallocated	185,916	185,916	347,398	(161,482)
	<u>185,916</u>	<u>185,916</u>	<u>347,398</u>	<u>(161,482)</u>
<b>Total general government</b>	<b><u>\$ 3,159,985</u></b>	<b><u>\$ 3,184,861</u></b>	<b><u>\$ 3,173,052</u></b>	<b><u>\$ 11,809</u></b>

**WADENA COUNTY  
WADENA, MINNESOTA**

**EXHIBIT A-1  
(Continued)**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Public safety</b>				
Sheriff	\$ 1,382,263	\$ 1,382,263	\$ 1,716,799	\$ (334,536)
Boat and water safety	4,875	4,875	4,391	484
Sheriff's forfeiture	-	-	15,540	(15,540)
Coroner	26,880	26,880	31,146	(4,266)
ATV grant	4,204	4,204	2,445	1,759
E-911 system	25,303	25,303	81,626	(56,323)
Law enforcement center	336,370	338,870	308,413	30,457
Community corrections	151,229	151,229	151,229	-
Civil defense	111,155	111,155	134,245	(23,090)
Snowmobile safety enforcement	2,601	2,601	4,928	(2,327)
County safety program	5,044	5,044	4,352	692
<b>Total public safety</b>	<b>\$ 2,049,924</b>	<b>\$ 2,052,424</b>	<b>\$ 2,455,114</b>	<b>\$ (402,690)</b>
<b>Culture and recreation</b>				
Historical society	\$ 4,000	\$ 4,000	\$ 4,000	\$ -
Parks	35,601	35,601	39,127	(3,526)
Humane society	600	600	600	-
Regional library	90,587	90,587	90,587	-
Snowmobile trails	60,000	60,000	69,321	(9,321)
<b>Total culture and recreation</b>	<b>\$ 190,788</b>	<b>\$ 190,788</b>	<b>\$ 203,635</b>	<b>\$ (12,847)</b>
<b>Conservation of natural resources</b>				
County extension	\$ 121,110	\$ 121,110	\$ 118,657	\$ 2,453
Soil and water conservation	49,340	49,340	46,340	3,000
Agricultural inspection	15,000	15,000	15,000	-
Agricultural society/County fair	28,000	28,000	28,000	-
Tree planting	7,000	7,000	3,860	3,140
<b>Total conservation of natural resources</b>	<b>\$ 220,450</b>	<b>\$ 220,450</b>	<b>\$ 211,857</b>	<b>\$ 8,593</b>
<b>Total Expenditures</b>	<b>\$ 5,621,147</b>	<b>\$ 5,648,523</b>	<b>\$ 6,043,658</b>	<b>\$ (395,135)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 666,463</b>	<b>\$ 690,633</b>	<b>\$ 502,743</b>	<b>\$ (187,890)</b>

**WADENA COUNTY  
WADENA, MINNESOTA**

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

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Other Financing Sources (Uses)</b>				
Transfers out	\$ (199,785)	\$ (199,785)	\$ (199,785)	\$ -
Compensation for loss of general capital assets	-	-	663,594	(663,594)
	<u>-</u>	<u>-</u>	<u>663,594</u>	<u>(663,594)</u>
<b>Total Other Financing Sources (Uses)</b>	<u>\$ (199,785)</u>	<u>\$ (199,785)</u>	<u>\$ 463,809</u>	<u>\$ (663,594)</u>
<b>Net Change in Fund Balance</b>	<b>\$ 466,678</b>	<b>\$ 490,848</b>	<b>\$ 966,552</b>	<b>\$ (851,484)</b>
<b>Fund Balance - January 1</b>	<u>1,825,764</u>	<u>1,825,764</u>	<u>1,825,764</u>	<u>-</u>
<b>Fund Balance - December 31</b>	<u><u>\$ 2,292,442</u></u>	<u><u>\$ 2,316,612</u></u>	<u><u>\$ 2,792,316</u></u>	<u><u>\$ (851,484)</u></u>

**WADENA COUNTY  
WADENA, MINNESOTA**

*EXHIBIT A-2*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,351,792	\$ 1,351,792	\$ 1,201,674	\$ (150,118)
Intergovernmental	3,645,100	3,372,350	3,128,029	(244,321)
Miscellaneous	20,000	40,000	146,991	106,991
<b>Total Revenues</b>	<b>\$ 5,016,892</b>	<b>\$ 4,764,142</b>	<b>\$ 4,476,694</b>	<b>\$ (287,448)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 341,842	\$ 333,842	\$ 312,232	\$ 21,610
Maintenance	1,483,417	1,443,081	1,390,421	52,660
Construction	2,924,211	2,576,511	2,168,959	407,552
Equipment maintenance and shop	229,809	245,209	264,475	(19,266)
<b>Total highways and streets</b>	<b>\$ 4,979,279</b>	<b>\$ 4,598,643</b>	<b>\$ 4,136,087</b>	<b>\$ 462,556</b>
<b>Intergovernmental</b>				
Highways and streets	145,000	145,000	155,076	(10,076)
<b>Total Expenditures</b>	<b>\$ 5,124,279</b>	<b>\$ 4,743,643</b>	<b>\$ 4,291,163</b>	<b>\$ 452,480</b>
<b>Net Change in Fund Balance</b>	<b>\$ (107,387)</b>	<b>\$ 20,499</b>	<b>\$ 185,531</b>	<b>\$ 165,032</b>
<b>Fund Balance - January 1</b>	<b>1,405,183</b>	<b>1,405,183</b>	<b>1,405,183</b>	<b>-</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>-</b>	<b>26,816</b>	<b>26,816</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,297,796</b>	<b>\$ 1,425,682</b>	<b>\$ 1,617,530</b>	<b>\$ 191,848</b>

**WADENA COUNTY  
WADENA, MINNESOTA**

*EXHIBIT A-3*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,726,038	\$ 1,726,038	\$ 1,531,816	\$ (194,222)
Intergovernmental	2,706,811	2,706,811	3,224,187	517,376
Miscellaneous	804,393	804,393	1,174,808	370,415
<b>Total Revenues</b>	<b>\$ 5,237,242</b>	<b>\$ 5,237,242</b>	<b>\$ 5,930,811</b>	<b>\$ 693,569</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 1,564,794	\$ 1,564,794	\$ 1,485,184	\$ 79,610
Social services	3,632,590	3,632,590	3,542,221	90,369
<b>Total Expenditures</b>	<b>\$ 5,197,384</b>	<b>\$ 5,197,384</b>	<b>\$ 5,027,405</b>	<b>\$ 169,979</b>
<b>Net Change in Fund Balance</b>	<b>\$ 39,858</b>	<b>\$ 39,858</b>	<b>\$ 903,406</b>	<b>\$ 863,548</b>
<b>Fund Balance - January 1</b>	<b>736,247</b>	<b>736,247</b>	<b>736,247</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 776,105</b>	<b>\$ 776,105</b>	<b>\$ 1,639,653</b>	<b>\$ 863,548</b>

**WADENA COUNTY  
WADENA, MINNESOTA**

***EXHIBIT A-4***

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

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%

**WADENA COUNTY  
WADENA, MINNESOTA**

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

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1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the Forfeited Tax Sale and Transit Special Revenue 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 and the Road and Bridge Special Revenue Fund.

Encumbrance accounting is employed in governmental funds. Encumbrances (contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reapportioned and honored during the subsequent year.

2. Excess of Expenditures Over Budget

For the year ended December 31, 2010, the General Fund had expenditures in excess of budget of \$395,135.

3. Other Postemployment Benefits Funded Status

The County implemented the requirements of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for the fiscal year ended December 31, 2008. Currently, only one year's worth of data is available. Future reports will provide additional trend analysis to meet the three-year funding status requirements as the information becomes available.

**WADENA COUNTY  
WADENA, MINNESOTA**

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3. Other Postemployment Benefits Funded Status (Continued)

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

**SUPPLEMENTARY INFORMATION**

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**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.

Forfeited Tax Sale Fund - to account for the proceeds from the sale or rental of land forfeited to the State of Minnesota pursuant to Minn. Stat. ch. 282. The distribution of net proceeds, after deducting the expense of the County for managing the tax-forfeited lands, is governed by Minn. Stat. § 282.08.

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, 2010**

	<b>Public Health Nurse</b>	<b>Solid Waste</b>	<b>Forfeited Tax Sale</b>	<b>Transit</b>	<b>Total (Exhibit 3)</b>
<b><u>Assets</u></b>					
Cash and pooled investments	\$ 119,750	\$ 583,789	\$ 580	\$ 51,319	\$ 755,438
Petty cash and change funds	40	250	-	100	390
Undistributed cash in agency funds	-	13,693	-	-	13,693
Special assessments receivable					
Current	-	20,741	-	-	20,741
Prior	-	16,345	-	-	16,345
Accounts receivable	22,104	71,470	-	2,557	96,131
Accrued interest receivable	-	-	-	32	32
Due from other funds	11,908	25	-	5,238	17,171
Due from other governments	172,187	110,334	-	92,224	374,745
Advance to other funds	10,000	3,750	-	-	13,750
	<b>\$ 335,989</b>	<b>\$ 820,397</b>	<b>\$ 580</b>	<b>\$ 151,470</b>	<b>\$ 1,308,436</b>
<b><u>Liabilities and Fund Balances</u></b>					
<b>Liabilities</b>					
Accounts payable	\$ 4,692	\$ 24,233	\$ -	\$ 10,155	\$ 39,080
Salaries payable	41,037	4,357	-	7,477	52,871
Due to other funds	730	20,183	-	1,494	22,407
Due to other governments	3,772	44,548	-	3,478	51,798
Advances from other funds	-	-	1,000	-	1,000
Deferred revenue - unavailable	66,930	139,003	-	92,224	298,157
Deferred revenue - unearned	59,305	-	-	-	59,305
	<b>\$ 176,466</b>	<b>\$ 232,324</b>	<b>\$ 1,000</b>	<b>\$ 114,828</b>	<b>\$ 524,618</b>
<b>Fund Balances</b>					
Reserved for advances to other funds	\$ 10,000	\$ 3,750	\$ -	\$ -	\$ 13,750
Reserved for SCORE	-	57,324	-	-	57,324
Unreserved					
Undesignated	149,523	526,999	(420)	36,642	712,744
	<b>\$ 159,523</b>	<b>\$ 588,073</b>	<b>\$ (420)</b>	<b>\$ 36,642</b>	<b>\$ 783,818</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 335,989</b>	<b>\$ 820,397</b>	<b>\$ 580</b>	<b>\$ 151,470</b>	<b>\$ 1,308,436</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, 2010**

	<u>Public Health Nurse</u>	<u>Solid Waste</u>	<u>Forfeited Tax Sale</u>	<u>Transit</u>	<u>Total (Exhibit 5)</u>
<b>Revenues</b>					
Taxes	\$ -	\$ 8,055	\$ -	\$ -	\$ 8,055
Special assessments	-	416,178	-	-	416,178
Licenses and permits	24,039	200	-	-	24,239
Intergovernmental	815,759	55,950	-	256,538	1,128,247
Charges for services	240,433	642,563	-	48,636	931,632
Investment earnings	-	-	-	501	501
Miscellaneous	46,873	8,112	-	17,000	71,985
<b>Total Revenues</b>	<b>\$ 1,127,104</b>	<b>\$ 1,131,058</b>	<b>\$ -</b>	<b>\$ 322,675</b>	<b>\$ 2,580,837</b>
<b>Expenditures</b>					
<b>Current</b>					
Sanitation	\$ -	\$ 1,207,368	\$ -	\$ -	\$ 1,207,368
Human services	-	-	-	351,149	351,149
Health	1,269,914	-	-	-	1,269,914
<b>Total Expenditures</b>	<b>\$ 1,269,914</b>	<b>\$ 1,207,368</b>	<b>\$ -</b>	<b>\$ 351,149</b>	<b>\$ 2,828,431</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (142,810)</b>	<b>\$ (76,310)</b>	<b>\$ -</b>	<b>\$ (28,474)</b>	<b>\$ (247,594)</b>
<b>Other Financing Sources (Uses)</b>					
Transfers in	199,785	-	-	-	199,785
<b>Net Change in Fund Balance</b>	<b>\$ 56,975</b>	<b>\$ (76,310)</b>	<b>\$ -</b>	<b>\$ (28,474)</b>	<b>\$ (47,809)</b>
<b>Fund Balance - January 1</b>	<b>102,548</b>	<b>664,383</b>	<b>(420)</b>	<b>65,116</b>	<b>831,627</b>
<b>Fund Balance - December 31</b>	<b>\$ 159,523</b>	<b>\$ 588,073</b>	<b>\$ (420)</b>	<b>\$ 36,642</b>	<b>\$ 783,818</b>

**WADENA COUNTY  
WADENA, MINNESOTA**

*EXHIBIT C-1*

**BUDGETARY COMPARISON SCHEDULE  
PUBLIC HEALTH NURSE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Licenses and permits	\$ 25,083	\$ 25,083	\$ 24,039	\$ (1,044)
Intergovernmental	709,469	709,469	815,759	106,290
Charges for services	262,302	262,302	240,433	(21,869)
Miscellaneous	57,195	57,195	46,873	(10,322)
<b>Total Revenues</b>	<b>\$ 1,054,049</b>	<b>\$ 1,054,049</b>	<b>\$ 1,127,104</b>	<b>\$ 73,055</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Health</b>				
Nursing service	1,229,034	1,229,034	1,269,914	(40,880)
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (174,985)</b>	<b>\$ (174,985)</b>	<b>\$ (142,810)</b>	<b>\$ 32,175</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	199,785	199,785	199,785	-
<b>Net Change in Fund Balance</b>	<b>\$ 24,800</b>	<b>\$ 24,800</b>	<b>\$ 56,975</b>	<b>\$ 32,175</b>
<b>Fund Balance - January 1</b>	<b>102,548</b>	<b>102,548</b>	<b>102,548</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 127,348</b>	<b>\$ 127,348</b>	<b>\$ 159,523</b>	<b>\$ 32,175</b>

**WADENA COUNTY  
WADENA, MINNESOTA**

*EXHIBIT C-2*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 20,900	\$ 20,900	\$ 8,055	\$ (12,845)
Special assessments	418,000	418,000	416,178	(1,822)
Licenses and permits	350	350	200	(150)
Intergovernmental	50,000	50,000	55,950	5,950
Charges for services	604,235	604,235	642,563	38,328
Miscellaneous	-	-	8,112	8,112
<b>Total Revenues</b>	<b><u>\$ 1,093,485</u></b>	<b><u>\$ 1,093,485</u></b>	<b><u>\$ 1,131,058</u></b>	<b><u>\$ 37,573</u></b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Sanitation</b>				
Solid waste	\$ 821,820	\$ 821,820	\$ 1,103,868	\$ (282,048)
Recycling	115,155	115,155	103,500	11,655
<b>Total Expenditures</b>	<b><u>\$ 936,975</u></b>	<b><u>\$ 936,975</u></b>	<b><u>\$ 1,207,368</u></b>	<b><u>\$ (270,393)</u></b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ 156,510</b>	<b>\$ 156,510</b>	<b>\$ (76,310)</b>	<b>\$ (232,820)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	(12,000)	(12,000)	-	12,000
<b>Net Change in Fund Balance</b>	<b>\$ 144,510</b>	<b>\$ 144,510</b>	<b>\$ (76,310)</b>	<b>\$ (220,820)</b>
<b>Fund Balance - January 1</b>	<b><u>664,383</u></b>	<b><u>664,383</u></b>	<b><u>664,383</u></b>	<b><u>-</u></b>
<b>Fund Balance - December 31</b>	<b><u>\$ 808,893</u></b>	<b><u>\$ 808,893</u></b>	<b><u>\$ 588,073</u></b>	<b><u>\$ (220,820)</u></b>

**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, 2010**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>GOVERNMENTAL (80)</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 12,204	\$ 57,562	\$ 58,499	\$ 11,267
<b><u>Liabilities</u></b>				
Due to other governments	\$ 12,204	\$ 57,562	\$ 58,499	\$ 11,267
 <b><u>TAXES AND PENALTIES (82)</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 165,890	\$ 6,522,799	\$ 6,533,650	\$ 155,039
<b><u>Liabilities</u></b>				
Due to other governments	\$ 165,890	\$ 6,522,799	\$ 6,533,650	\$ 155,039
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 178,094	\$ 6,580,361	\$ 6,592,149	\$ 166,306
<b><u>Liabilities</u></b>				
Due to other governments	\$ 178,094	\$ 6,580,361	\$ 6,592,149	\$ 166,306

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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, 2010**

	<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	0.15 to 0.25	Continuous	688,428
Money market savings	Seven	0.30 to 0.80	Continuous	4,650,500
Certificates of deposit	Eight	1.00 to 1.85	February 15, 2011 to July 16, 2012	<u>1,750,000</u>
<b>Total Deposits and Investments</b>				<b><u>\$ 7,092,318</u></b>

**WADENA COUNTY  
WADENA, MINNESOTA**

**EXHIBIT E-2**

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

**Shared Revenue**

**State**

Highway users tax	\$ 2,371,727
County program aid	791,321
PERA rate reimbursement	20,825
Disparity reduction aid	53,147
Police aid	52,947
Enhanced 911	87,364
Market value credit	677,463
Mobile home market value credit	1,763

**Total shared revenue** **\$ 4,056,557**

**Reimbursement for Services**

Minnesota Department of Human Services **\$ 699,995**

**Payments**

**Local**

Local contributions	\$ 5,443
Payments in lieu of taxes	40,378

**Total payments** **\$ 45,821**

**Grants**

**State**

Minnesota Department/Board of	
Public Safety	\$ 110,839
Corrections	3,696
Transportation	150,312
Health	165,222
Natural Resources	82,515
Human Services	711,107
Water and Soil Resources	119,378
Veterans Affairs	5,000
Pollution Control Agency	55,950
Peace Officer Standards and Training Board	3,585

**Total state** **\$ 1,407,604**

**Federal**

Department of/Agency	
Agriculture	\$ 225,373
Commerce	62,641
Transportation	537,612
Health and Human Services	1,941,381
Homeland Security	355,460

**Total federal** **\$ 3,122,467**

**Total state and federal grants** **\$ 4,530,071**

**Total Intergovernmental Revenue** **\$ 9,332,444**

**WADENA COUNTY  
WADENA, MINNESOTA**

**EXHIBIT E-3**

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

<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 Minnesota Department of Health and Morrison-Todd-Wadena Community Health Services Board Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 87,761
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) Cluster	10.561	133,386
State Administrative Matching Grants for SNAP - ARRA	10.561	<u>4,468</u>
<b>Total U.S. Department of Agriculture</b>		<b>\$ <u>225,615</u></b>
<b>U.S. Department of Commerce</b>		
Passed Through Minnesota Department of Public Safety and Central Minnesota Regional Radio Board Public Safety Interoperable Communications Grant Program	11.555	<b>\$ <u>62,641</u></b>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation Highway Planning and Construction Cluster		
Highway Planning and Construction	20.205	\$ 92,696
Highway Planning and Construction - ARRA	20.205	352,679
Formula Grants for Other Than Urbanized Areas	20.509	104,450
Passed Through Minnesota Department of Public Safety Highway Safety Cluster		
State and Community Highway Safety	20.600	4,092
Occupant Protection Incentive Grants	20.602	1,021
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	<u>2,891</u>
<b>Total U.S. Department of Transportation</b>		<b>\$ <u>557,829</u></b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Health and Central Minnesota Council on Aging Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	\$ 6,387
Passed Through Community Health Information Collaborative of Duluth Immunization Cluster		
Immunization Grants	93.268	5,483
Direct Drug-Free Communities Support Program Grants	93.276	100,605

**WADENA COUNTY  
WADENA, MINNESOTA**

**EXHIBIT E-3  
(Continued)**

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

<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 Health, Morrison-Todd-Wadena Community Health Services Board, and Isanti County Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	52,271
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	11,644
Temporary Assistance for Needy Families	93.558	206,047
Child Support Enforcement Cluster		
Child Support Enforcement	93.563	263,479
Child Support Enforcement - ARRA	93.563	27,100
Refugee and Entrant Assistance - State-Administered Programs	93.566	132
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	10,221
Foster Care Title IV-E Cluster		
Foster Care Title IV-E	93.658	151,080
Foster Care Title IV-E - ARRA	93.658	6,878
Social Services Block Grant	93.667	122,090
Chafee Foster Care Independence Program	93.674	2,933
Children's Health Insurance Program	93.767	207
Medical Assistance Program	93.778	483,334
Block Grants for Prevention and Treatment of Substance Abuse	93.959	274,463
Passed Through Minnesota Department of Health and Morrison-Todd-Wadena Community Health Services Board		
Temporary Assistance for Needy Families	93.558	36,931
Maternal and Child Health Services Block Grant to the States	93.994	22,116
Immunization Cluster		
Immunization - ARRA	93.712	6,271
Medical Assistance Program	93.778	50,308
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 1,839,980</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	\$ 368,657
Emergency Management Performance Grants	97.042	18,396
Homeland Security Grant Program	97.067	7,394
Passed Through Minnesota Department of Public Safety and Central Minnesota Regional Radio Board		
Interoperable Emergency Communications	97.055	2,387
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 396,834</b>
<b>Total Federal Awards</b>		<b>\$ 3,082,899</b>

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

**WADENA COUNTY  
WADENA, MINNESOTA**

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

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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, 2010. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Wadena County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Wadena County.

3. Summary of Significant Accounting Policies

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

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$	3,122,467
Grants received more than 60 days after year-end, deferred in 2010		
Special Supplemental Nutrition Program for Women, Infants, and Children		23,224
Highway Planning and Construction - ARRA		24,695
Formula Grants for Other Than Urbanized Areas		42,858
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers		1,603
Immunization Grants		738
Child Support Enforcement		14,126
Child Care Mandatory and Matching Funds of the Child Care and Development Fund		1,224
Foster Care Title IV-E		349
Disaster Grants - Public Assistance (Presidentially Declared Disasters)		84,240

**WADENA COUNTY  
WADENA, MINNESOTA**

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4. Reconciliation to Schedule of Intergovernmental Revenue (Continued)

Grants deferred in 2009, recognized as revenue in 2010	
Special Supplemental Nutrition Program for Women, Infants, and Children	(22,982)
Formula Grants for Other Than Urbanized Areas	(47,336)
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	(1,550)
Immunization Grants	(1,003)
Child Support Enforcement	(20,335)
Foster Care Title IV-E	(22,198)
Medical Assistance Program	(74,355)
Emergency Management Performance Grants	(14,218)
Disaster Grants - Public Assistance (Presidentially Declared Disasters) overpayment of grant money owed back to Homeland Security and Emergency Management	(28,648)
	(28,648)
Expenditures per Schedule of Expenditures of Federal Awards	\$ 3,082,899

5. Subrecipients

During 2010, the County did not pass any federal money to subrecipients.

6. American Recovery and Reinvestment Act

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



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**WADENA COUNTY  
WADENA, MINNESOTA**

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

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

- A. Our report expresses unqualified opinions on the basic financial statements of Wadena County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Wadena County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." One of the significant deficiencies is a material weakness.
- C. No instances of noncompliance material to the financial statements of Wadena County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Wadena County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:
  - State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) Cluster
  - State Administrative Matching Grants for SNAP CFDA #10.561
  - State Administrative Matching Grants for SNAP - ARRA CFDA #10.561
  - Highway Planning and Construction Cluster
  - Highway Planning and Construction CFDA #20.205
  - Highway Planning and Construction - ARRA CFDA #20.205

Child Support Enforcement Cluster	
Child Support Enforcement	CFDA #93.563
Child Support Enforcement - ARRA	CFDA #93.563
Medical Assistance Program	CFDA #93.778
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	CFDA #97.036

- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Wadena County was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

98-1 Departmental Segregation of Duties

Due to the limited number of office personnel within several County offices, segregation of accounting functions necessary to ensure adequate internal accounting control is not possible. 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 accounting control point of view.

Without proper segregation of duties, errors or irregularities may not be detected timely.

We recommend that the County Board be aware of the lack of segregation of the accounting functions and, where possible, develop oversight procedures to ensure adequate controls over cash, receivables, and other items.

Client’s Response:

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

## 06-1 Preparation of Financial Statements

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

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

During recent years, individuals within the County Auditor/Treasurer's Office have been improving their understanding of reporting requirements by working with the Office of the State Auditor and by obtaining some additional outside training.

We recommend Wadena County continue its efforts in training individuals to obtain the expertise to sufficiently review, understand, and approve the County's financial statements, including notes.

### Client's Response:

*The Wadena County Auditor/Treasurer's Office financial staff will continue its efforts in training individuals to obtain expertise to sufficiently review, understand, and approve the County's financial statements, including notes.*

## 06-2 Audit Adjustment

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Statement on Auditing Standards 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis.

During our audit, we identified one material adjustment.

- An entry was made in the Road and Bridge Special Revenue Fund to reclassify \$327,984 regular Highway Planning and Construction federal revenue as Highway Planning and Construction American Recovery and Reinvestment Act federal revenue.

The proposed audit adjustment was reviewed and approved by the appropriate staff and is reflected in the financial statements. However, the inability to detect a material misstatement in the financial statements increases the likelihood that the financial statements will not be fairly presented.

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

### Client's Response:

*Wadena County will continue to update and expand its review procedures to ensure all postings to the general ledger and supporting schedules are accurate and complete.*

## 08-3 Road and Bridge Inventory

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

Errors in the Inventory of Supplies and Materials Report include overstating the unit cost or quantity of items. In some cases, the unit cost times the quantity did not agree with the value shown for the items on hand.

We recommend the County establish review procedures to ensure the inventory quantity reconciles to year-end counts, valuations properly reflect the County's policy which states the valuation is based on cost using the first in/first out method, and that the report properly calculates the valuation based on unit cost times the number of units.

Client's Response:

*Wadena County will continue to update and expand its review procedures to ensure the inventory quantity reconciles to year-end counts, valuations properly reflect the County's policy which states the valuation is based on cost using the first in/first out method, and that the report properly calculates the valuation based on unit cost times the number of units.*

ITEM ARISING THIS YEAR

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

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

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

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

We recommend that Wadena County management develop a process, including written procedures that will allow staff to adequately identify federal revenues and accumulate the information needed to prepare the SEFA. Specific measures could include having departments informing accounting/finance when they have received a grant award, holding in suspense accounts until properly identified as to nature and source any intergovernmental revenue receipts, and comparison of the prior year SEFA to the current year. For each federal award identified, the County should determine the correct program CFDA title and number, award number and year, federal grantor agency, pass-through agency, amount received and expended, and whether American Recovery and Reinvestment Act funding is involved. The federal CFDA website is available to assist

in this process. Those responsible for compiling the SEFA should obtain the training necessary (through courses or reference materials) to understand the components of the SEFA and properly gather the correct information and maintain supporting documentation. The County should also reconcile the SEFA amounts to the general ledger and financial statements.

Client's Response:

*Wadena County management will develop a process, including written procedures that will allow staff to adequately identify federal revenues and accumulate the information needed to prepare the SEFA; i.e. CFDA title and number, award number and year, federal grantor agency, pass-through agency, amount received and expended, and whether ARRA funding is involved.*

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

None.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

**Bidding (09-1)**

During our audit of contracts, we noted the County entered into a \$116,541 contract without bidding as required by Minn. Stat. § 471.345, subd. 3.

**Resolution**

All contracts reviewed during audit were in compliance with Minn. Stat. § 471.345, subd. 3.

B. OTHER ITEM FOR CONSIDERATION

GASB Statement 54

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

## Fund Balance Reporting

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

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

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

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

## Governmental Fund Type Definitions

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

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

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

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

Additional implementation steps could include: informing any component units that they also will need to meet the requirements; deciding on how fund balance will be presented in the financials, such as detailed vs. aggregate methods; and developing the potential note disclosures. Additional guidance on GASB Statement 54 can be found on the Office of the State Auditor's website at: [http://www.auditor.state.mn.us/other/Statements/fundbalances\\_postGASB54\\_1012\\_statement.pdf](http://www.auditor.state.mn.us/other/Statements/fundbalances_postGASB54_1012_statement.pdf).

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

Board of County Commissioners  
Wadena County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wadena County as of and for the year ended December 31, 2010, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 27, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 06-2 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 98-1, 06-1, 08-3, and 10-1 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

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

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

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

Also included in the Schedule of Findings and Questioned Costs is an other item for consideration. We believe this information to be of benefit to the County, and we are reporting it for that purpose.

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

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

*/s/Rebecca Otto*

*/s/Greg Hierlinger*

REBECCA OTTO  
STATE AUDITOR

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 27, 2011

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

Board of County Commissioners  
Wadena County

#### Compliance

We have audited Wadena County's compliance of with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. Wadena County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

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

### Internal Control Over Compliance

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

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

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

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 27, 2011