

# STATE OF MINNESOTA

## Office of the State Auditor



**Patricia Anderson**  
**State Auditor**

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

YEAR ENDED DECEMBER 31, 2004

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

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

**Tax Increment Financing, Investment and Finance** - 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 Employee's 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, 2004**



**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, 2004

Office	Name	District	Term Expires
<b>Elected</b>			
<b>Commissioners</b>			
Board Member	Lane Waldahl	District 1	January 2007
Board Member	Orville Meyer	District 2	January 2005
Board Member	William Stearns	District 3	January 2007
Vice Chair	Mary Harrison	District 4	January 2005
Chair	David Mattila	District 5	January 2007
Attorney	Jon Edin		January 2007
Auditor/Treasurer	Charleen West		January 2007
County Recorder	Judy Aagard		January 2007
Registrar of Titles	Judy Aagard		January 2007
County Sheriff	H. Michael Carr		January 2007
<b>Appointed</b>			
Assessor	Lee Brekke		December 2008
County Engineer	Russell Larson		May 2008
Coroner	Tim B. Schmitt, M.D.		Indefinite
Community Corrections Officer	Kathryn Langer		Indefinite
Social Services Director	Paul Sailer		Indefinite
Veteran Services Officer	Wayne Terry		Indefinite

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# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON  
STATE AUDITOR

## 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, 2004, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit 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 and for the year ended December 31, 2004, 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.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2005, on our consideration of Wadena County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: July 21, 2005

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

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**WADENA COUNTY  
WADENA, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2004  
(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, 2004. 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 \$32,412,873 at the close of 2004. Of this amount, \$3,833,567 (unrestricted net assets) may be used to meet Wadena County's ongoing obligations to citizens and creditors.

At the close of 2004, Wadena County's governmental funds reported combined ending fund balances of \$4,308,550, a decrease of \$34,521 in comparison with the prior year. Of the total fund balance, \$3,489,681 is available for spending at the County's discretion and is noted as unreserved fund balance.

At the close of 2004, unreserved, undesignated fund balance for the General Fund was \$548,714, or 13 percent, of total General Fund expenditures.

Wadena County currently does not have any bonded indebtedness.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to 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 Management's Discussion and Analysis (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 County'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 only 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 and 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 balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Wadena County reports six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road and Bridge Special Revenue Fund, and Social Services Special Revenue Fund, 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.

#### **Notes to the Financial Statements.**

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

#### **Required supplementary information**

Wadena County adopts an annual appropriated budget for its General Fund and special revenue funds. Budgetary comparison statements have been provided for the County's governmental funds to demonstrate compliance with these budgets.

#### **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 \$32,412,873 at the close of 2004. The largest portion of Wadena County's net assets (86 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

	2004	2003
Current and other assets	\$ 5,815,353	\$ 6,520,137
Capital assets	28,008,373	27,681,459
Total Assets	\$ 33,823,726	\$ 34,201,596
Long-term liabilities outstanding	\$ 645,224	\$ 583,928
Other liabilities	765,629	1,313,297
Total Liabilities	\$ 1,410,853	\$ 1,897,225
Net Assets		
Invested in capital assets, net of related debt	\$ 28,008,373	\$ 27,681,459
Restricted	570,933	783,525
Unrestricted	3,833,567	3,839,387
Total Net Assets	\$ 32,412,873	\$ 32,304,371

The unrestricted net asset amount of \$3,833,567 as of December 31, 2004, may be used to meet the County's ongoing obligations to citizens and creditors.

### Governmental Activities

Wadena County's activities increased net assets by \$108,502, or 0.3 percent, over the 2003 net assets. The key elements of the increase were due to the County's investment in capital assets in 2004.

### Changes in Net Assets

	2004	2003
Revenues		
Program revenues		
Charges for services	\$ 1,868,140	\$ 1,558,159
Operating grants and contributions	6,231,134	6,829,465
Capital grants and contributions	80,285	162,592
General revenues		
Property taxes	4,317,620	4,086,390
Grants and contributions not restricted to specific programs	1,034,555	1,043,210
Other	256,789	233,262
Special item - sale of nursing home	243,557	-
Total Revenues	\$ 14,032,080	\$ 13,913,078

	<u>2004</u>	<u>2005</u>
Expenses		
General government	\$ 2,728,262	\$ 2,359,334
Public safety	1,266,832	1,169,600
Highways and streets	3,120,686	2,259,850
Sanitation	943,499	864,280
Human services	4,854,402	4,990,035
Health	650,043	689,317
Culture and recreation	98,416	95,610
Conservation of natural resources	258,035	294,634
Economic development	3,403	-
	<u>\$ 13,923,578</u>	<u>\$ 12,722,660</u>
Total Expenses		
Increase (Decrease) in Net Assets	\$ 108,502	\$ 1,190,418
Net Assets - January 1	<u>32,304,371</u>	<u>31,113,953</u>
Net Assets - December 31	<u>\$ 32,412,873</u>	<u>\$ 32,304,371</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 \$4,308,550, a decrease of \$34,521 in comparison with the prior year. The majority of this amount (\$3,489,681) consists of unreserved fund balance, which 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 \$1,645,837, while total fund balance was \$2,247,464. 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 38 percent of total General Fund expenditures. In 2004, fund balance in the General Fund increased by \$135,393, due primarily to the receipt of additional grant funds and down payment on the sale of Fair Oaks Lodge Nursing Home totaling \$243,557.

The Road and Bridge Fund's fund balance decreased by \$123,392 in 2004. The main reason for this decrease was due to project costs for road maintenance.

The Social Services Fund's fund balance decreased by \$48,963 due to a decrease in both revenue and expenditures, with a larger decrease in revenues.

**General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget were \$54,360 (increase in revenues of \$21,181 and increase in expenditures of \$75,541). The actual revenues were higher than budgeted revenues by \$344,356 and actual expenditures exceeded budgeted expenditures by \$281,217. The largest variance was in intergovernmental revenue where the County received more grants than were budgeted.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The County's investment in capital assets for its governmental activities as of December 31, 2004, was \$28,008,373 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The total increase in the County's investment in capital assets for the current fiscal year was 1.2 percent. The increases were attributed primarily to infrastructure.

**Wadena County's Governmental Capital Assets  
(Net of Depreciation)**

	<u>2004</u>	<u>2005</u>
Land	\$ 562,512	\$ 543,246
Infrastructure	24,529,497	24,136,180
Buildings	2,014,644	2,097,078
Furniture, equipment, and machinery	<u>901,720</u>	<u>904,955</u>
Total	<u>\$ 28,008,373</u>	<u>\$ 27,681,459</u>

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

**Long-Term Debt**

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

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

- Wadena County's unemployment rate was 6.9 percent at the end of 2004. This was above the statewide rate of 4.3 percent.
- Mortgage interest rates have been extremely low, causing many people to refinance their mortgages.

## **REQUESTS FOR INFORMATION**

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

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## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**WADENA COUNTY  
WADENA, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET ASSETS  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2004**

**Assets**

Cash and pooled investments	\$	4,115,863
Petty cash and change funds		3,090
Taxes receivable		
Current		139,191
Prior		77,244
Special assessments receivable		
Current		13,175
Prior		6,893
Accounts receivable		134,931
Accrued interest receivable		6,813
Due from other governments		1,178,404
Advances receivable		57,500
Inventories		82,249
Capital assets		
Non-depreciable		562,512
Depreciable - net of accumulated depreciation		27,445,861
		27,445,861
<b>Total Assets</b>	<b>\$</b>	<b>33,823,726</b>

**Liabilities**

Accounts payable	\$	322,923
Salaries payable		64,537
Due to other governments		227,906
Unearned revenue		150,013
Customer deposits		250
Long-term liabilities		
Due within one year		350,280
Due in more than one year		294,944
		294,944
<b>Total Liabilities</b>	<b>\$</b>	<b>1,410,853</b>

**Net Assets**

Invested in capital assets	\$	28,008,373
Restricted for		
General government		11,626
Public safety		65,472
Highways and streets		436,806
Culture and recreation		18,671
Conservation of natural resources		23,338
Other purposes		15,020
Unrestricted		3,833,567
		3,833,567
<b>Total Net Assets</b>	<b>\$</b>	<b>32,412,873</b>

**WADENA COUNTY  
WADENA, MINNESOTA**

**EXHIBIT 2**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Program Revenues			Net (Expense)
Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
<b>Functions/Programs</b>				
<b>Governmental Activities</b>				
General government	\$ 2,728,262	\$ 424,562	\$ 108,388	\$ (2,195,312)
Public safety	1,266,832	131,548	101,247	(1,034,037)
Highways and streets	3,120,686	21,639	2,233,772	80,285 (784,990)
Sanitation	943,499	570,956	376,228	3,685
Human services	4,854,402	330,983	2,963,180	(1,560,239)
Health	650,043	252,391	338,742	(58,910)
Culture and recreation	98,416	11,891	34,130	(52,395)
Conservation of natural resources	258,035	124,170	71,523	(62,342)
Economic development	3,403	-	3,924	521
<b>Total</b>	<b>\$ 13,923,578</b>	<b>\$ 1,868,140</b>	<b>\$ 6,231,134</b>	<b>\$ 80,285</b>
<b>General Revenues</b>				
Property taxes				\$ 4,317,620
Other taxes				7,716
Payments in lieu of tax				28,791
Grants and contributions not restricted to specific programs				1,034,555
Unrestricted investment earnings				77,394
Miscellaneous				142,888
<b>Special item - sale of joint county nursing home</b>				<b>243,557</b>
<b>Total general revenues and special items</b>				<b>\$ 5,852,521</b>
<b>Change in Net Assets</b>				<b>\$ 108,502</b>
<b>Net Assets - Beginning</b>				<b>32,304,371</b>
<b>Net Assets - Ending</b>				<b>\$ 32,412,873</b>

**FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

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**WADENA COUNTY  
WADENA, MINNESOTA**

**EXHIBIT 3**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2004**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>Assets</u></b>					
Cash and pooled investments	\$ 1,646,143	\$ 524,079	\$ 1,263,847	\$ 548,018	\$ 3,982,087
Petty cash and change funds	2,700	100	200	90	3,090
Undistributed cash in agency funds	83,840	13,796	25,338	10,802	133,776
Taxes receivable					
Current	88,481	17,727	32,983	-	139,191
Prior	48,068	10,457	18,719	-	77,244
Special assessments receivable					
Current	-	-	-	13,175	13,175
Prior	-	-	-	6,893	6,893
Accounts receivable	12,907	4,401	6,636	110,987	134,931
Accrued interest receivable	6,720	-	93	-	6,813
Due from other funds	82,182	-	8,461	9,504	100,147
Due from other governments	105,525	537,464	466,553	68,862	1,178,404
Inventories	-	82,249	-	-	82,249
Advances to other funds	467,500	7,500	27,500	5,000	507,500
<b>Total Assets</b>	<b><u>\$ 2,544,066</u></b>	<b><u>\$ 1,197,773</u></b>	<b><u>\$ 1,850,330</u></b>	<b><u>\$ 773,331</u></b>	<b><u>\$ 6,365,500</u></b>

**WADENA COUNTY  
WADENA, MINNESOTA**

**EXHIBIT 3  
(Continued)**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2004**

	<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>Liabilities</b>					
Accounts payable	\$ 100,021	\$ 46,331	\$ 141,560	\$ 35,011	\$ 322,923
Salaries payable	33,444	11,255	11,208	8,630	64,537
Due to other funds	16,980	27	12,611	82,119	111,737
Due to other governments	31,819	425	102,711	81,361	216,316
Deferred revenue - unavailable	114,338	473,868	93,007	59,961	741,174
Deferred revenue - unearned	-	150,013	-	-	150,013
Advance from other funds	-	450,000	-	-	450,000
Customer deposits	-	250	-	-	250
<b>Total Liabilities</b>	<b>\$ 296,602</b>	<b>\$ 1,132,169</b>	<b>\$ 361,097</b>	<b>\$ 267,082</b>	<b>\$ 2,056,950</b>
<b>Fund Balances</b>					
Reserved for					
Advances to other funds	\$ 467,500	\$ 7,500	\$ 27,500	\$ 5,000	\$ 507,500
Inventories	-	82,249	-	-	82,249
Emergency management	479	-	-	-	479
Utility deposits	-	500	-	-	500
State-aid highway projects	-	94,493	-	-	94,493
Missing heirs	15,020	-	-	-	15,020
Recorder's equipment	11,626	-	-	-	11,626
Timber development	23,338	-	-	-	23,338
Parks	18,671	-	-	-	18,671
Sheriff's contingency	64,993	-	-	-	64,993
Unreserved					
Designated for future expenditures	497,123	-	-	-	497,123
Designated for cash flows	600,000	-	800,000	-	1,400,000
Undesignated	548,714	(119,138)	661,733	-	1,091,309
Unreserved, reported in nonmajor Special revenue funds	-	-	-	501,249	501,249
<b>Total Fund Balances</b>	<b>\$ 2,247,464</b>	<b>\$ 65,604</b>	<b>\$ 1,489,233</b>	<b>\$ 506,249</b>	<b>\$ 4,308,550</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,544,066</b>	<b>\$ 1,197,773</b>	<b>\$ 1,850,330</b>	<b>\$ 773,331</b>	<b>\$ 6,365,500</b>

**WADENA COUNTY  
WADENA, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2004**

<b>Fund balances - total governmental funds (Exhibit 3)</b>	<b>\$ 4,308,550</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.	28,008,373
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	741,174
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Compensated absences	<u>(645,224)</u>
<b>Net assets of governmental activities (Exhibit 1)</b>	<b><u>\$ 32,412,873</u></b>

**WADENA COUNTY  
WADENA, MINNESOTA**

**EXHIBIT 5**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<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	\$ 2,598,482	\$ 549,103	\$ 1,112,466	\$ 7,716	\$ 4,267,767
Special assessments	-	-	-	322,540	322,540
Licenses and permits	44,804	-	-	19,394	64,198
Intergovernmental	1,023,859	2,458,253	3,211,515	349,699	7,043,326
Charges for services	188,694	-	35,332	781,057	1,005,083
Fines and forfeits	105,104	-	-	-	105,104
Gifts and contributions	3,924	-	32,299	-	36,223
Interest on investments	76,664	-	730	-	77,394
Miscellaneous	376,573	21,365	295,251	146,438	839,627
<b>Total Revenues</b>	<b>\$ 4,418,104</b>	<b>\$ 3,028,721</b>	<b>\$ 4,687,593</b>	<b>\$ 1,626,844</b>	<b>\$ 13,761,262</b>
<b>Expenditures</b>					
<b>Current</b>					
General government	\$ 2,675,154	\$ -	\$ -	\$ -	\$ 2,675,154
Public safety	1,265,974	-	-	-	1,265,974
Highways and streets	-	3,272,815	-	-	3,272,815
Sanitation	100,057	-	-	907,455	1,007,512
Human services	-	-	4,736,556	-	4,736,556
Health	500	-	-	608,458	608,958
Culture and recreation	98,416	-	-	-	98,416
Conservation of natural resources	205,057	-	-	51,197	256,254
Economic development	3,403	-	-	-	3,403
<b>Intergovernmental</b>	<b>-</b>	<b>130,386</b>	<b>-</b>	<b>-</b>	<b>130,386</b>
<b>Total Expenditures</b>	<b>\$ 4,348,561</b>	<b>\$ 3,403,201</b>	<b>\$ 4,736,556</b>	<b>\$ 1,567,110</b>	<b>\$ 14,055,428</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 69,543</b>	<b>\$ (374,480)</b>	<b>\$ (48,963)</b>	<b>\$ 59,734</b>	<b>\$ (294,166)</b>
<b>Other Financing Sources (Uses)</b>					
Transfers in	\$ 148,157	\$ 235,000	\$ -	\$ 90,864	\$ 474,021
Transfers out	(325,864)	-	-	(148,157)	(474,021)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (177,707)</b>	<b>\$ 235,000</b>	<b>\$ -</b>	<b>\$ (57,293)</b>	<b>\$ -</b>
<b>Special item</b>					
Sale of joint county nursing home	\$ 243,557	\$ -	\$ -	\$ -	\$ 243,557
<b>Net Change in Fund Balances</b>	<b>\$ 135,393</b>	<b>\$ (139,480)</b>	<b>\$ (48,963)</b>	<b>\$ 2,441</b>	<b>\$ (50,609)</b>
Fund Balance - January 1, as previously reported	\$ 1,995,648	\$ 141,689	\$ 1,389,292	\$ 503,808	\$ 4,030,437
Prior period adjustments (Note 1.F.)	116,423	47,307	148,904	-	312,634
<b>Fund Balance - January 1</b>	<b>\$ 2,112,071</b>	<b>\$ 188,996</b>	<b>\$ 1,538,196</b>	<b>\$ 503,808</b>	<b>\$ 4,343,071</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>\$ -</b>	<b>\$ 16,088</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 16,088</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,247,464</b>	<b>\$ 65,604</b>	<b>\$ 1,489,233</b>	<b>\$ 506,249</b>	<b>\$ 4,308,550</b>

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

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**WADENA COUNTY  
WADENA, MINNESOTA**

**EXHIBIT 6**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**Net change in fund balances - total governmental funds (Exhibit 5) \$ (50,609)**

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 expenditures are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues between the fund statements and the statement of activities is the increase (decrease) in revenues deferred as unavailable.

Deferred revenue - December 31	\$ 741,174	
Deferred revenue - January 1	(829,985)	(88,811)

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 capital assets is reported, whereas, in the governmental funds, the proceeds from the disposal increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net book value of the assets disposed of.

Expenditures for general capital assets and infrastructure	\$ 1,614,876	
Net book value of assets disposed of	(7,943)	
Current year depreciation	(1,280,019)	326,914

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	\$ (95,080)	
Change in inventories	16,088	(78,992)

**Change in net assets of governmental activities (Exhibit 2) \$ 108,502**

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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, 2004**

	Investment Trust	Health Reimbursement Trust	Agency
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 97,633	\$ 68,391	\$ 177,873
Receivables			
Interest	151	-	-
Due from other funds	11,590	-	-
	<b>\$ 109,374</b>	<b>\$ 68,391</b>	<b>\$ 177,873</b>
<b>Total Assets</b>	<b>\$ 109,374</b>	<b>\$ 68,391</b>	<b>\$ 177,873</b>
<b><u>Liabilities</u></b>			
Accounts payable	\$ 50	\$ -	\$ -
Due to other governments	-	-	177,873
Advances from governmental funds	-	57,500	-
	<b>\$ 50</b>	<b>\$ 57,500</b>	<b>\$ 177,873</b>
<b>Total Liabilities</b>	<b>\$ 50</b>	<b>\$ 57,500</b>	<b>\$ 177,873</b>
<b><u>Net Assets</u></b>			
Net assets held in trust for pool participants	\$ 109,324	\$ -	
Net assets held in trust for employees	-	10,891	
	<b>\$ 109,324</b>	<b>\$ 10,891</b>	
<b>Total Net Assets</b>	<b>\$ 109,324</b>	<b>\$ 10,891</b>	

**WADENA COUNTY  
WADENA, MINNESOTA**

**EXHIBIT 8**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Investment Trust	Health Reimbursement Trust
<b><u>Additions</u></b>		
Contributions from employers	\$ -	\$ 14,062
Contributions from participants	598,583	-
Investment earnings		
Interest	16,186	-
	<b>\$ 614,769</b>	<b>\$ 14,062</b>
<b><u>Deductions</u></b>		
Benefits	\$ -	\$ 3,171
Pool participant withdrawals	1,495,288	-
	<b>\$ 1,495,288</b>	<b>\$ 3,171</b>
<b>Change in Net Assets</b>	<b>\$ (880,519)</b>	<b>\$ 10,891</b>
<b>Net Assets--Beginning of the Year</b>	<b>989,843</b>	<b>-</b>
<b>Net Assets--End of the Year</b>	<b>\$ 109,324</b>	<b>\$ 10,891</b>

**WADENA COUNTY  
WADENA, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004**

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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, 2004. 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 which are described in Note 5.B.

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 primary government. 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.

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

**WADENA COUNTY  
WADENA, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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 that are 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 that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are 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.

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.

**WADENA COUNTY  
WADENA, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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:

Investment Trust Funds account for the external pooled and non-pooled investments held on behalf of external participants.

The 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.

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 to be *available* if they are collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated

**WADENA COUNTY  
WADENA, MINNESOTA**

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general 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 they are 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 Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2004, 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 2004 were \$93,580.

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

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



**WADENA COUNTY  
WADENA, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

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

2. External Investment Pools

Included in total cash and pooled investments are the assets held for the Fair Oaks Lodge Nursing Home and Wadena County Family Services Collaborative in external investment pools. For the purposes of financial reporting, the Fair Oaks Lodge's and the Family Services Collaborative's portion of the County's pool of cash and investments are reported as investment trust funds. 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 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

Activity 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 to indicate they are not available for appropriation and are not expendable available financial resources.

No allowance has been made for uncollectible receivables.

**WADENA COUNTY  
WADENA, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

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 on 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.

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 government 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.

**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)

Donated capital assets are recorded at estimated fair market value at the date of donation. The government's capitalization threshold for capital assets is as follows:

Assets	Capitalization Threshold
Land	\$ 1
Land improvements	25,000
Buildings	25,000
Building improvements	25,000
Furniture, equipment, and vehicles	10,000

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset 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.

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

Assets	Years
Buildings	25 - 40
Building improvements	40
Public domain infrastructure	50 - 75
Landfill disposal systems	25
Furniture, equipment, and vehicles	3 - 10

**WADENA COUNTY  
WADENA, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

7. Compensated Absences

The liability for compensated absences reported in 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.

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 that are 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.

**WADENA COUNTY  
WADENA, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

E. Reclassifications

Some account balances presented in the notes were reclassified as of and for the year ended December 31, 2003, as previously reported. Those reclassifications, which did not require a restatement of the net assets, were required for comparability to the financial statements as of and for the year ended December 31, 2004, and must be considered when comparing the financial statements of this report with those of prior reports.

F. Prior Period Adjustments

In the 2003 financial statements, the County understated the fund balance accounts of the General Fund, Road and Bridge Fund, and Social Services Fund by \$116,423, \$47,307, and \$148,904, respectively, by overstating the fund liability for compensated absences. The fund balance accounts have been restated to show this correction.

	General Fund	Road and Bridge	Social Services
Net Assets - December 31, 2003, as previously reported	\$ 1,995,648	\$ 141,689	\$ 1,389,292
Prior period adjustment	116,423	47,307	148,904
Net Assets - January 1, 2004, as restated	\$ 2,112,071	\$ 188,996	\$ 1,538,196

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

The County's total cash and investments are reported as follows:

Governmental funds	
Cash and pooled investments	\$ 3,982,087
Change funds	3,090
Undistributed cash in agency funds	133,776
Fiduciary funds	
Cash and pooled investments	
Investment trust funds	97,633
Health reimbursement trust fund	68,391
Agency funds	177,873
Total Cash and Investments	\$ 4,462,850

**WADENA COUNTY  
WADENA, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the County Treasurer. At December 31, 2004, the carrying amount of the County's deposits totaled \$4,459,760. The bank balance deposit amount was \$5,555,387. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral.

Following is a summary of the deposits covered by insurance or collateral at December 31, 2004.

	<u>Bank Balance</u>
Covered Deposits	
Insured, or collateralized with securities held by the County or its agent in the County's name	\$ 2,018,799
Collateralized with securities held by the pledging financial institution's agent in the County's name	3,536,588
Total covered deposits	\$ 5,555,387
Uncollateralized	-
Total	\$ 5,555,387
Cash on hand	\$ 3,090
Interest-bearing checking	825,678
Savings accounts	1,334,082
Certificates of deposit	2,300,000
Total Cash and Investments	\$ 4,462,850

**WADENA COUNTY  
WADENA, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2004, for the County's governmental activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 216,435	\$ -
Special assessments	20,068	-
Accounts	134,931	-
Interest	6,813	-
Due from other governments	1,178,404	-
Total Governmental Activities	\$ 1,556,651	\$ -

3. Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 543,246	\$ 19,266	\$ -	\$ 562,512
Capital assets depreciated				
Buildings	\$ 4,559,539	\$ 37,248	\$ -	\$ 4,596,787
Machinery, furniture, and equipment	2,455,106	251,034	95,311	2,610,829
Infrastructure	32,684,030	1,307,328	-	33,991,358
Total capital assets depreciated	\$ 39,698,675	\$ 1,595,610	\$ 95,311	\$ 41,198,974

**WADENA COUNTY  
WADENA, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Less: accumulated depreciation for				
Buildings	\$ 2,462,461	\$ 119,682	\$ -	\$ 2,582,143
Machinery, furniture, and equipment	1,550,151	246,326	87,368	1,709,109
Infrastructure	<u>8,547,850</u>	<u>914,011</u>	<u>-</u>	<u>9,461,861</u>
 Total accumulated depreciation	 <u>\$ 12,560,462</u>	 <u>\$ 1,280,019</u>	 <u>\$ 87,368</u>	 <u>\$ 13,753,113</u>
 Total capital assets depreciated, net	 <u>\$ 27,138,213</u>	 <u>\$ 315,591</u>	 <u>\$ 7,943</u>	 <u>\$ 27,445,861</u>
 Governmental Activities Capital Assets, Net	 <u><u>\$ 27,681,459</u></u>	 <u><u>\$ 334,857</u></u>	 <u><u>\$ 7,943</u></u>	 <u><u>\$ 28,008,373</u></u>

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

Governmental Activities	
General government	\$ 120,695
Public safety	57,393
Highways and streets, including depreciation of infrastructure assets	1,048,502
Sanitation	18,235
Human services	32,679
Health	<u>2,515</u>
 Total Depreciation Expense - Governmental Activities	 <u><u>\$ 1,280,019</u></u>

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2004, is as follows:



**WADENA COUNTY  
WADENA, MINNESOTA**

2. Detailed Notes on All Funds

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

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Road and Bridge Social Services Other Governmental	\$ 27 36 <u>82,119</u>
Total Due to General Fund		<u>\$ 82,182</u>
Social Services	General	<u>\$ 8,461</u>
Other Governmental	General Social Services	\$ 8,519 <u>985</u>
Total Due to Other Governmental		<u>\$ 9,504</u>
Investment Trust	Social Services	<u>\$ 11,590</u>
Total Due To/From Other Funds		<u><u>\$ 111,737</u></u>

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2004, consisted of the following:

Transfers to General Fund from other nonmajor governmental funds	\$ 148,157	Provide funding
Transfers to Road and Bridge Fund from General Fund	235,000	Provide funds for capital outlay
Transfers to nonmajor governmental funds from General Fund	<u>90,864</u>	Provide funding
Total Interfund Transfers	<u><u>\$ 474,021</u></u>	

**WADENA COUNTY  
WADENA, MINNESOTA**

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2. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2004, were as follows:

	Governmental Activities
Accounts	\$ 322,923
Salaries	64,537
Due to other governments	227,906
Total Payables	\$ 615,366

2. Deferred Revenue

Deferred revenue as of December 31, 2004, for the County's governmental activities are as follows:

	Deferred Unavailable	Deferred/ Unearned
Governmental Activities		
Taxes	\$ 174,079	\$ -
Special assessments	16,427	-
Intergovernmental revenue	518,219	150,013
Charges for services	27,648	-
Miscellaneous	4,801	-
Total Governmental Activities	\$ 741,174	\$ 150,013

3. Health Reimbursement Account

Minn. Stat. § 471.61 authorizes the County 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 the purposes of financial reporting, these health reimbursement accounts are reported as an employee benefit trust fund.

**WADENA COUNTY  
WADENA, MINNESOTA**

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2. Detailed Notes on All Funds

C. Liabilities

3. Health Reimbursement Account (Continued)

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

As of December 31, 2004, 34 employees had health reimbursement accounts. The County advanced \$57,500 to the employee benefit trust fund to provide the initial funding.

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2004, was as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	\$ 583,928	\$ 383,062	\$ 321,766	\$ 645,224	\$ 350,280

3. Employee Retirement Systems and Pension Plans

A. 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). The PERA administers the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund, which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All

**WADENA COUNTY  
WADENA, MINNESOTA**

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3. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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 and have direct contact with inmates are covered by the Public Employees Correctional Fund.

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

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

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

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

**WADENA COUNTY  
WADENA, MINNESOTA**

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3. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the web at [mnpera.org](http://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.

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. 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. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 6.20 percent of their annual covered salary. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The Board is required to contribute the following percentages of annual covered payroll:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53
Public Employees Police and Fire Fund	9.30
Public Employees Correctional Fund	8.75

The Board's contributions for the years ending December 31, 2004, 2003, and 2002, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

**WADENA COUNTY  
WADENA, MINNESOTA**

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3. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2004	\$ 220,645	\$ 28,465	\$ 23,535
2003	216,367	29,569	23,719
2002	226,384	25,465	22,326

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

4. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. The County 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.

The Workers' Compensation Division of the 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. The MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$720,000 per claim in 2004 and \$760,000 per claim in 2005. Should the MCIT Workers' Compensation Division liabilities exceed assets, the MCIT may assess the County in a method and amount to be determined by the MCIT.

**WADENA COUNTY  
WADENA, MINNESOTA**

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4. Risk Management (Continued)

The Property and Casualty Division of the MCIT is self-sustaining, and the County pays an annual premium to cover current and future losses. The MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, the MCIT may assess the County in a method and amount to be determined by the 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, but not limited to, 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.

5. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

B. Joint Ventures

Fair Oaks Lodge

Wadena and Todd Counties jointly established the Todd-Wadena (Fair Oaks Lodge) Nursing Home. The Nursing Home, located in Wadena County, is operated jointly by Todd and Wadena Counties under authority of Minn. Stat. § 376.58 to provide care to chronically ill and convalescent persons. Wadena County's share in the Nursing Home is 31.04 percent.

**WADENA COUNTY  
WADENA, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Fair Oaks Lodge (Continued)

The Todd-Wadena Nursing Home is governed by a five-member Nursing Home Executive Committee. The Nursing Home Executive Committee consists of two Wadena County Commissioners and three Todd County Commissioners. Receipts and disbursements are recorded in the Fair Oaks Lodge Investment Trust Fund by the Wadena County Auditor/Treasurer.

In October 2003, Todd and Wadena Counties signed an agreement with Tri-County Hospital, a Minnesota non-profit corporation, for the sale of Fair Oaks Lodge. Operations were turned over to Tri-County Hospital on January 1, 2004. Actual sale of the building was completed in 2004 when the bonds were retired.

Complete financial information can be obtained from:

Fair Oaks Lodge  
201 Shady Lane Drive  
Wadena, Minnesota 56482

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 the 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.

At December 31, 2003, Todd-Wadena Community Corrections had \$16,386 in loans payable outstanding. The loan will be paid using revenues generated through operations. If the Community Corrections is unable to meet the scheduled debt



**WADENA COUNTY  
WADENA, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Todd-Wadena Community Corrections (Continued)

retirement, Todd and Wadena Counties would be jointly liable. Financing is provided by grants from the State of Minnesota and appropriations from member counties, as well as from other local governments.

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 comprises 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:

Clearwater County Auditor  
213 North Main Avenue  
Bagley, Minnesota 56621

**WADENA COUNTY  
WADENA, MINNESOTA**

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5. 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 six-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 provided \$5,000 to this organization in 2004.

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; Ottertail-Wadena Community Action Council; and Todd-Wadena Community Corrections. The purpose of the Collaborative is to provide coordinated family services and to commit resources to an integrated fund.

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

In the event of a withdrawal from the Wadena County Family Service Collaborative, the withdrawing party shall give 180 days' notice. The withdrawing party shall remain liable for fiscal obligations incurred prior to the effective date of withdrawal, but shall incur no additional fiscal liability beyond the effective date of withdrawal. Upon termination of the Collaborative, all property and remaining funds shall be divided

**WADENA COUNTY  
WADENA, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Wadena County Family Service Collaborative (Continued)

among the remaining members. Distribution shall be determined on the basis of number of years of participation by each member and the proportionate contribution paid pursuant to the agreement of the Collaborative members.

Financing is provided by state grants and appropriations from its members. Wadena County, in an agent capacity, reports the cash transactions of the Wadena County Family Service Collaborative as an investment trust fund on the County's financial statements. During 2004, the County contributed \$500 to the Collaborative.

Cass-Todd-Wadena-Morrison Community Health Services

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

The four counties share responsibility to provide secretarial and financial services and to carry out the administrative requirements of the Board of Health. The four public health directors rotate the administrator position each year. The Cass County Auditor serves as fiscal agent. Separate financial information is not available.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**WADENA COUNTY  
WADENA, MINNESOTA**

***Schedule 1***

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Taxes	\$ 3,180,762	\$ 3,180,762	\$ 2,598,482	\$ (582,280)
Licenses and permits	38,331	38,331	44,804	6,473
Intergovernmental	391,449	391,449	1,023,859	632,410
Charges for services	203,245	203,245	188,694	(14,551)
Fines and forfeits	20,000	20,000	105,104	85,104
Gifts and contributions	-	-	3,924	3,924
Investment earnings	85,000	85,000	76,664	(8,336)
Miscellaneous	133,780	154,961	376,573	221,612
<b>Total Revenues</b>	<b>\$ 4,052,567</b>	<b>\$ 4,073,748</b>	<b>\$ 4,418,104</b>	<b>\$ 344,356</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 96,300	\$ 96,300	\$ 85,513	\$ 10,787
Courts	-	-	8,461	(8,461)
Law library	26,000	26,000	24,215	1,785
County auditor	364,500	370,500	377,324	(6,824)
County assessor	207,256	207,256	221,915	(14,659)
Elections	26,675	26,675	17,826	8,849
Voter registration	1,750	1,750	350	1,400
Data processing	245,815	280,815	269,310	11,505
Central services	85,100	85,100	71,539	13,561
Attorney	176,841	176,841	175,623	1,218
Attorney for misdemeanants	22,900	22,900	16,235	6,665
Recorder	94,059	94,059	104,537	(10,478)
Planning and zoning	87,953	87,953	88,843	(890)
GIS and GPS	35,000	56,181	36,499	19,682
Buildings and plant	294,145	293,945	259,612	34,333
County buildings	-	-	80,984	(80,984)
Veterans service officer	45,078	45,078	45,530	(452)
Unallocated	706,225	706,225	790,838	(84,613)
<b>Total general government</b>	<b>\$ 2,515,597</b>	<b>\$ 2,577,578</b>	<b>\$ 2,675,154</b>	<b>\$ (97,576)</b>
<b>Public safety</b>				
Sheriff	\$ 882,761	\$ 882,961	\$ 965,704	\$ (82,743)
Boat and water safety	5,089	5,089	5,272	(183)
Coroner	13,500	13,500	17,347	(3,847)
E-911 system	25,579	25,579	58,746	(33,167)
Law enforcement center	107,600	107,600	115,360	(7,760)
Community corrections	70,000	70,000	70,000	-
Civil defense	9,526	9,886	32,504	(22,618)
Snowmobile safety enforcement	-	-	1,041	(1,041)
<b>Total public safety</b>	<b>\$ 1,114,055</b>	<b>\$ 1,114,615</b>	<b>\$ 1,265,974</b>	<b>\$ (151,359)</b>
<b>Sanitation</b>				
Solid waste	\$ 117,194	\$ 117,194	\$ 100,057	\$ 17,137

**WADENA COUNTY  
WADENA, MINNESOTA**

***Schedule 1  
(Continued)***

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Health</b>				
Ambulance	\$ 1,500	\$ 1,500	\$ 500	\$ 1,000
<b>Culture and recreation</b>				
Historical society	\$ 3,200	\$ 3,200	\$ 3,200	\$ -
Parks	24,205	24,205	23,985	220
Humane society	750	750	750	-
Regional library	37,271	37,271	37,271	-
Celebrations	280	280	280	-
Snowmobile trails	32,000	32,000	32,930	(930)
<b>Total culture and recreation</b>	<b>\$ 97,706</b>	<b>\$ 97,706</b>	<b>\$ 98,416</b>	<b>\$ (710)</b>
<b>Conservation of natural resources</b>				
Cooperative extension	\$ 105,400	\$ 105,400	\$ 78,759	\$ 26,641
Soil and water conservation	29,351	29,351	96,218	(66,867)
Agricultural inspections	-	13,000	13,000	-
Agricultural society/County fair	11,000	11,000	11,000	-
Tree planting	-	-	6,080	(6,080)
<b>Total conservation of natural resources</b>	<b>\$ 145,751</b>	<b>\$ 158,751</b>	<b>\$ 205,057</b>	<b>\$ (46,306)</b>
<b>Economic development</b>				
Community development	\$ -	\$ -	\$ 3,403	\$ (3,403)
<b>Total Expenditures</b>	<b>\$ 3,991,803</b>	<b>\$ 4,067,344</b>	<b>\$ 4,348,561</b>	<b>\$ (281,217)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 60,764</b>	<b>\$ 6,404</b>	<b>\$ 69,543</b>	<b>\$ 63,139</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 66,045	\$ 66,045	\$ 148,157	\$ 82,112
Transfers out	(325,864)	(325,864)	(325,864)	-
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (259,819)</b>	<b>\$ (259,819)</b>	<b>\$ (177,707)</b>	<b>\$ 82,112</b>
<b>Special item</b>				
Sale of joint county nursing home	\$ -	\$ -	\$ 243,557	\$ 243,557
<b>Net Change in Fund Balance</b>	<b>\$ (199,055)</b>	<b>\$ (253,415)</b>	<b>\$ 135,393</b>	<b>\$ 388,808</b>
Fund Balance - January 1	\$ 1,995,648	\$ 1,995,648	\$ 1,995,648	\$ -
Prior period adjustment	116,423	116,423	116,423	-
<b>Fund Balance - January 1, as restated</b>	<b>\$ 2,112,071</b>	<b>\$ 2,112,071</b>	<b>\$ 2,112,071</b>	<b>\$ -</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,913,016</b>	<b>\$ 1,858,656</b>	<b>\$ 2,247,464</b>	<b>\$ 388,808</b>



**WADENA COUNTY  
WADENA, MINNESOTA**

*Schedule 2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 618,078	\$ 618,078	\$ 549,103	\$ (68,975)
Intergovernmental	3,264,037	3,264,037	2,458,253	(805,784)
Miscellaneous	20,646	20,646	21,365	719
<b>Total Revenues</b>	<b>\$ 3,902,761</b>	<b>\$ 3,902,761</b>	<b>\$ 3,028,721</b>	<b>\$ (874,040)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 265,479	\$ 265,479	\$ 315,804	\$ (50,325)
Maintenance	698,445	698,445	1,305,101	(606,656)
Construction	2,546,788	2,546,788	1,505,896	1,040,892
Equipment maintenance and shop	510,015	510,015	146,014	364,001
<b>Total highways and streets</b>	<b>\$ 4,020,727</b>	<b>\$ 4,020,727</b>	<b>\$ 3,272,815</b>	<b>\$ 747,912</b>
<b>Intergovernmental</b>				
Highways and streets	119,366	119,366	130,386	(11,020)
<b>Total Expenditures</b>	<b>\$ 4,140,093</b>	<b>\$ 4,140,093</b>	<b>\$ 3,403,201</b>	<b>\$ 736,892</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (237,332)</b>	<b>\$ (237,332)</b>	<b>\$ (374,480)</b>	<b>\$ (137,148)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	235,000	235,000	235,000	-
<b>Net Change in Fund Balance</b>	<b>\$ (2,332)</b>	<b>\$ (2,332)</b>	<b>\$ (139,480)</b>	<b>\$ (137,148)</b>
Fund Balance - January 1	\$ 141,689	\$ 141,689	\$ 141,689	\$ -
Prior period adjustment	47,307	47,307	47,307	-
<b>Fund Balance - January 1, as restated</b>	<b>\$ 188,996</b>	<b>\$ 188,996</b>	<b>\$ 188,996</b>	<b>\$ -</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 16,088</b>	<b>\$ 16,088</b>
<b>Fund Balance - December 31</b>	<b>\$ 186,664</b>	<b>\$ 186,664</b>	<b>\$ 65,604</b>	<b>\$ (121,060)</b>

**WADENA COUNTY  
WADENA, MINNESOTA**

*Schedule 3*

**BUDGETARY COMPARISON SCHEDULE  
SOCIAL SERVICES FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 1,280,462	\$ 1,280,462	\$ 1,112,466	\$ (167,996)
Intergovernmental	2,923,346	2,923,346	3,211,515	288,169
Charges for services	-	-	35,332	35,332
Gifts and contributions	-	-	32,299	32,299
Interest on investments	-	-	730	730
Miscellaneous	275,185	275,185	295,251	20,066
<b>Total Revenues</b>	<b>\$ 4,478,993</b>	<b>\$ 4,478,993</b>	<b>\$ 4,687,593</b>	<b>\$ 208,600</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 1,107,421	\$ 1,107,421	\$ 1,325,915	\$ (218,494)
Social services	3,371,572	3,371,572	3,208,628	162,944
Transportation	-	-	202,013	(202,013)
<b>Total Expenditures</b>	<b>\$ 4,478,993</b>	<b>\$ 4,478,993</b>	<b>\$ 4,736,556</b>	<b>\$ (257,563)</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (48,963)</b>	<b>\$ (48,963)</b>
Fund Balance - January 1	\$ 1,389,292	\$ 1,389,292	\$ 1,389,292	\$ -
Prior period adjustment	148,904	148,904	148,904	-
<b>Fund Balance - January 1, as restated</b>	<b>\$ 1,538,196</b>	<b>\$ 1,538,196</b>	<b>\$ 1,538,196</b>	<b>\$ -</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,538,196</b>	<b>\$ 1,538,196</b>	<b>\$ 1,489,233</b>	<b>\$ (48,963)</b>

**WADENA COUNTY  
WADENA, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004**

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1. Budgetary Information

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

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

The appropriated budget is prepared by fund, function, and department. Wadena County's department head 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 supplemental budgetary appropriations of \$75,541 in the General Fund. Supplemental budgetary appropriations in other funds were not considered significant.

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 Appropriations

For the year ended December 31, 2004, expenditures exceeded appropriations (the legal level of budgetary control) in the General Fund and Social Services Fund by \$281,217 and \$257,563, respectively. These over-expenditures were funded by greater than anticipated revenues.

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**SUPPLEMENTARY INFORMATION**

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**WADENA COUNTY  
WADENA, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

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

Solid Waste Fund - To account for the financial 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.

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**WADENA COUNTY  
WADENA, MINNESOTA**

*Statement A-1*

**COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
DECEMBER 31, 2004**

	<b>Public Health Nurse</b>	<b>Solid Waste</b>	<b>Forfeited Tax Sale</b>	<b>Total (Exhibit 3)</b>
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 102,160	\$ 336,098	\$ 109,760	\$ 548,018
Petty cash and change funds	40	50	-	90
Undistributed cash in agency funds	-	10,802	-	10,802
Special assessments receivable				
Current	-	13,175	-	13,175
Prior	-	6,893	-	6,893
Accounts receivable	40,838	70,149	-	110,987
Due from other funds	2,678	-	6,826	9,504
Due from other governments	66,825	414	1,623	68,862
Advance to other funds	2,500	2,500	-	5,000
<b>Total Assets</b>	<b><u>\$ 215,041</u></b>	<b><u>\$ 440,081</u></b>	<b><u>\$ 118,209</u></b>	<b><u>\$ 773,331</u></b>
<b><u>Liabilities and Fund Balances</u></b>				
<b>Liabilities</b>				
Accounts payable	\$ 7,317	\$ 27,694	\$ -	\$ 35,011
Salaries payable	8,569	61	-	8,630
Due to other funds	7	10,230	71,882	82,119
Due to other governments	484	34,550	46,327	81,361
Deferred revenue - unavailable	43,534	16,427	-	59,961
<b>Total Liabilities</b>	<b><u>\$ 59,911</u></b>	<b><u>\$ 88,962</u></b>	<b><u>\$ 118,209</u></b>	<b><u>\$ 267,082</u></b>
<b>Fund Balances</b>				
Reserved for advances to other funds	\$ 2,500	\$ 2,500	\$ -	\$ 5,000
Unreserved				
Undesignated	152,630	348,619	-	501,249
<b>Total Fund Balances</b>	<b><u>\$ 155,130</u></b>	<b><u>\$ 351,119</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 506,249</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 215,041</u></b>	<b><u>\$ 440,081</u></b>	<b><u>\$ 118,209</u></b>	<b><u>\$ 773,331</u></b>

**WADENA COUNTY  
WADENA, MINNESOTA**

*Statement A-2*

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<b>Public Health Nurse</b>	<b>Solid Waste</b>	<b>Forfeited Tax Sale</b>	<b>Total (Exhibit 5)</b>
<b>Revenues</b>				
Taxes	\$ -	\$ 7,716	\$ -	\$ 7,716
Special assessments	-	322,540	-	322,540
Licenses and permits	19,269	125	-	19,394
Intergovernmental	349,699	-	-	349,699
Charges for services	215,980	565,077	-	781,057
Miscellaneous	20,675	2,684	123,079	146,438
<b>Total Revenues</b>	<b>\$ 605,623</b>	<b>\$ 898,142</b>	<b>\$ 123,079</b>	<b>\$ 1,626,844</b>
<b>Expenditures</b>				
<b>Current</b>				
Sanitation	\$ -	\$ 907,455	\$ -	\$ 907,455
Health	608,458	-	-	608,458
Conservation of natural resources	-	-	51,197	51,197
<b>Total Expenditures</b>	<b>\$ 608,458</b>	<b>\$ 907,455</b>	<b>\$ 51,197</b>	<b>\$ 1,567,110</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (2,835)</b>	<b>\$ (9,313)</b>	<b>\$ 71,882</b>	<b>\$ 59,734</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 90,864	\$ -	\$ -	\$ 90,864
Transfers out	-	(76,275)	(71,882)	(148,157)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 90,864</b>	<b>\$ (76,275)</b>	<b>\$ (71,882)</b>	<b>\$ (57,293)</b>
<b>Net Change in Fund Balance</b>	<b>\$ 88,029</b>	<b>\$ (85,588)</b>	<b>\$ -</b>	<b>\$ 2,441</b>
<b>Fund Balance - January 1</b>	<b>67,101</b>	<b>436,707</b>	<b>-</b>	<b>503,808</b>
<b>Fund Balance - December 31</b>	<b>\$ 155,130</b>	<b>\$ 351,119</b>	<b>\$ -</b>	<b>\$ 506,249</b>

**WADENA COUNTY  
WADENA, MINNESOTA**

*Schedule 4*

**BUDGETARY COMPARISON SCHEDULE  
PUBLIC HEALTH NURSE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<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	\$ 20,107	\$ 20,107	\$ 19,269	\$ (838)
Intergovernmental	328,887	328,887	349,699	20,812
Charges for services	261,047	261,047	215,980	(45,067)
Miscellaneous	101,511	101,511	20,675	(80,836)
<b>Total Revenues</b>	<b>\$ 711,552</b>	<b>\$ 711,552</b>	<b>\$ 605,623</b>	<b>\$ (105,929)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Health</b>				
Nursing service	802,416	802,416	608,458	193,958
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (90,864)</b>	<b>\$ (90,864)</b>	<b>\$ (2,835)</b>	<b>\$ 88,029</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	90,864	90,864	90,864	-
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 88,029</b>	<b>\$ 88,029</b>
<b>Fund Balance - January 1</b>	<b>67,101</b>	<b>67,101</b>	<b>67,101</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 67,101</b>	<b>\$ 67,101</b>	<b>\$ 155,130</b>	<b>\$ 88,029</b>

**WADENA COUNTY  
WADENA, MINNESOTA**

*Schedule 5*

**BUDGETARY COMPARISON SCHEDULE  
SOLID WASTE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ -	\$ 7,629	\$ 7,716	\$ 87
Special assessments	309,476	341,778	322,540	(19,238)
Licenses and permits	-	125	125	-
Charges for services	420,972	560,674	565,077	4,403
Miscellaneous	-	-	2,684	2,684
<b>Total Revenues</b>	<b>\$ 730,448</b>	<b>\$ 910,206</b>	<b>\$ 898,142</b>	<b>\$ (12,064)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Sanitation</b>				
Solid waste	\$ 650,150	\$ 829,570	\$ 896,213	\$ (66,643)
Recycling	4,023	11,191	11,242	(51)
<b>Total Expenditures</b>	<b>\$ 654,173</b>	<b>\$ 840,761</b>	<b>\$ 907,455</b>	<b>\$ (66,694)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 76,275</b>	<b>\$ 69,445</b>	<b>\$ (9,313)</b>	<b>\$ (78,758)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	(76,275)	(76,275)	(76,275)	-
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ (6,830)</b>	<b>\$ (85,588)</b>	<b>\$ (78,758)</b>
<b>Fund Balance - January 1</b>	<b>436,707</b>	<b>436,707</b>	<b>436,707</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 436,707</b>	<b>\$ 429,877</b>	<b>\$ 351,119</b>	<b>\$ (78,758)</b>

**WADENA COUNTY  
WADENA, MINNESOTA**

*Schedule 6*

**BUDGETARY COMPARISON SCHEDULE  
FORFEITED TAX SALE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Miscellaneous	\$ 500	\$ 500	\$ 123,079	\$ 122,579
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Forfeited tax	1,000	1,000	51,197	(50,197)
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (500)</b>	<b>\$ (500)</b>	<b>\$ 71,882</b>	<b>\$ 72,382</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	-	-	(71,882)	(71,882)
<b>Net Change in Fund Balance</b>	<b>\$ (500)</b>	<b>\$ (500)</b>	<b>\$ -</b>	<b>\$ 500</b>
<b>Fund Balance - January 1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ (500)</b>	<b>\$ (500)</b>	<b>\$ -</b>	<b>\$ 500</b>

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**WADENA COUNTY  
WADENA, MINNESOTA**

**FIDUCIARY FUNDS**

Investment Trust Funds

Family Service Collaborative Fund - To account for the deposits held for the Wadena County Family Service Collaborative joint venture. The County acts as custodian of these funds.

Fair Oaks Lodge Fund - To account for the deposits held for the Todd-Wadena (Fair Oaks Lodge) Nursing Home joint venture. The County acts as custodian of these 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**

*Statement B-1*

**COMBINING STATEMENT OF FIDUCIARY NET ASSETS  
INVESTMENT TRUST FUNDS  
DECEMBER 31, 2004**

	Family Service Collaborative	Fair Oaks Lodge	Total (Exhibit 7)
<b><u>Assets</u></b>			
Cash and cash equivalents	\$ 80,730	\$ 16,903	\$ 97,633
Receivables			
Interest	129	22	151
Due from other funds	11,590	-	11,590
<b>Total Assets</b>	<b>\$ 92,449</b>	<b>\$ 16,925</b>	<b>\$ 109,374</b>
<b><u>Liabilities</u></b>			
Accounts payable	50	-	50
<b><u>Net Assets</u></b>			
Net assets held in trust for pool participants	<b>\$ 92,399</b>	<b>\$ 16,925</b>	<b>\$ 109,324</b>

**WADENA COUNTY  
WADENA, MINNESOTA**

*Statement B-2*

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
INVESTMENT TRUST FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<b>Family Service Collaborative</b>	<b>Fair Oaks Lodge</b>	<b>Total (Exhibit 8)</b>
<b><u>Additions</u></b>			
Contributions from participants	\$ 74,744	\$ 523,839	\$ 598,583
Investment earnings			
Interest	1,341	14,845	16,186
<b>Total Additions</b>	<b>\$ 76,085</b>	<b>\$ 538,684</b>	<b>\$ 614,769</b>
<b><u>Deductions</u></b>			
Pool participant withdrawals	138,240	1,357,048	1,495,288
<b>Change in Net Assets</b>	<b>\$ (62,155)</b>	<b>\$ (818,364)</b>	<b>\$ (880,519)</b>
<b>Net Assets--Beginning of the Year</b>	<b>154,554</b>	<b>835,289</b>	<b>989,843</b>
<b>Net Assets--End of the Year</b>	<b>\$ 92,399</b>	<b>\$ 16,925</b>	<b>\$ 109,324</b>

**WADENA COUNTY  
WADENA, MINNESOTA**

*Statement C-1*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>GOVERNMENTAL (80)</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ 6,331</u>	<u>\$ 40,262</u>	<u>\$ 34,386</u>	<u>\$ 12,207</u>
<b><u>Liabilities</u></b>				
Due to other governments	<u>\$ 6,331</u>	<u>\$ 40,262</u>	<u>\$ 34,386</u>	<u>\$ 12,207</u>
 <b><u>TAXES AND PENALTIES (82)</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ 115,287</u>	<u>\$ 4,517,326</u>	<u>\$ 4,466,947</u>	<u>\$ 165,666</u>
<b><u>Liabilities</u></b>				
Due to other governments	<u>\$ 115,287</u>	<u>\$ 4,517,326</u>	<u>\$ 4,466,947</u>	<u>\$ 165,666</u>
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ 121,618</u>	<u>\$ 4,557,588</u>	<u>\$ 4,501,333</u>	<u>\$ 177,873</u>
<b><u>Liabilities</u></b>				
Due to other governments	<u>\$ 121,618</u>	<u>\$ 4,557,588</u>	<u>\$ 4,501,333</u>	<u>\$ 177,873</u>

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**OTHER SCHEDULE**

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**WADENA COUNTY  
WADENA, MINNESOTA**

*Schedule 7*

**SCHEDULE OF DEPOSITS AND INVESTMENTS  
DECEMBER 31, 2004**

	<u>Quantity</u>	<u>Interest Rates (%)</u>	<u>Maturity Dates</u>	<u>Cost</u>
<b>Cash and Pooled Investments</b>				
Cash on hand and departmental checking	N/A	N/A	Continuous	\$ 3,090
Checking accounts - interest bearing	Five	0.05 to 1.5	Continuous	825,678
Money market savings	Four	0.7 to 2.05	Continuous	1,334,082
Certificates of deposit	Ten	1.5 to 2.75	March 19, 2005 to March 27, 2006	<u>2,300,000</u>
<b>Total Deposits and Investments</b>				<b><u>\$ 4,462,850</u></b>

**WADENA COUNTY  
WADENA, MINNESOTA**

**Schedule 8**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**Shared Revenue**

**State**

Highway users tax	\$	2,339,617
HACA		252,044
PERA rate reimbursement		44,341
Disparity reduction aid		53,618
Police aid		29,569
Enhanced 911		42,887
Market value credit		682,421
Mobile home MVC		2,039
		2,039

**Total Shared Revenue** **\$ 3,446,536**

**Reimbursement for Services**

Minnesota Department of Human Services	\$	1,409,142
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**Payments**

Local contributions	\$	1,423
Payments in lieu of taxes		28,791
		28,791

**Total Payments** **\$ 30,214**

**Grants**

**State**

Minnesota Department/Board/office		
Public Safety	\$	7,032
Transportation		126,551
Health		214,358
Natural Resources		38,855
Human Services		996,244
Soil and Water Resources		71,392
Environmental Assistance		49,099
		49,099

**Total State** **\$ 1,503,531**

**Federal**

Department/Agency		
Agriculture	\$	64,263
Transportation		22,804
Environmental Protection		4,000
Health and Human Services		526,392
Homeland Security		36,444
		36,444

**Total Federal** **\$ 653,903**

**Total State and Federal Grants** **\$ 2,157,434**

**Total Intergovernmental Revenue** **\$ 7,043,326**





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**WADENA COUNTY  
WADENA, MINNESOTA**

**Schedule 9**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

- A. Our report expresses an unqualified opinion on the basic financial statements of Wadena County.
- B. Reportable conditions in internal control were disclosed by the audit of financial statements of Wadena County and are reported in the "Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." None were material weaknesses.
- 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 Applicable to Each Major Program and 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:

Child Care Mandatory and Matching Funds	CFDA #93.596
Social Services Block Grant - Title XX	CFDA #93.667
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Wadena County was 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.

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 Commissioners have been made aware of the lack of segregation of duties of accounting functions and the need to develop oversight procedures where possible. A policy is being developed and finalized for the oversight of each department holding cash.*

03-1 Difference in Taxes and Penalties Ending Cash

On December 31, 2004, the general ledger cash balance in the Taxes and Penalties Agency Fund exceeded the amount shown on the County-prepared summary of unapportioned (unsettled) taxes by \$19,196. This summary is prepared from and ties to the collection settlement reports generated from Wadena County's tax system. At December 31, 2003, the excess amount was \$265.

The cash balance in the Taxes and Penalties Agency Fund, along with the undistributed cash in agency fund for taxes shown in other County funds, should reconcile to the amount shown on the County-prepared summary schedule of unapportioned taxes.

We recommend that the County compare future tax collections with settlements to ensure that all amounts collected are settled out to the proper agencies. The unknown balance should be turned over to the County's General Fund after it has remained unchanged for several months.

**Client's Response:**

*After several tax settlements are paid out to the proper agencies and the unknown balance has not been acknowledged, it will be transferred to the General Fund.*

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

None

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

**MANAGEMENT PRACTICES**

**PREVIOUSLY REPORTED ITEM NOT RESOLVED**

01-2 **Consolidated General Ledger**

Currently, separate general ledgers are maintained by the County Auditor/Treasurer and the Highway Department. Each department enters its detailed transactions in the corresponding general ledger. The detailed payroll transactions recorded in the Highway Department general ledger are not recorded in the same amount of detail in the main general ledger maintained by the County Auditor/Treasurer.

Accounting and reporting controls are more efficient and effective when all transactions are accounted for in one centralized general ledger. Access controls to a centralized general ledger could be established so that departments would have the same responsibility and authority for entering detailed transactions as is currently done with separate departmental general ledgers. A centralized general ledger generally provides more uniformity and consistency in accounting for financial transactions. In addition, it allows senior management to have independent access to financial information for the entire County as needed to manage and/or monitor its financial operations.

We strongly recommend that the County Board provide the necessary directives to department managers that would allow for the recording of all detailed financial transactions in a consolidated general ledger.

**Client's Response:**

*The consolidation of the Auditor/Treasurer and Highway general ledger will occur in January 2005. Trainings and clean up of the consolidation will be conducted through December 2005 and operation of the County's consolidated general ledger will begin January 1, 2005, or earlier, if possible.*

## **OTHER REQUIRED REPORTS**

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**STATE OF MINNESOTA**  
**OFFICE OF THE STATE AUDITOR**

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PATRICIA ANDERSON  
STATE AUDITOR

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING 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 Wadena County as of and for the year ended December 31, 2004, and have issued our report thereon dated July 21, 2005. 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 98-1 and 03-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by

employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe neither of the reportable conditions indicated above is a material weakness.

### 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 Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

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

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

/s/Pat Anderson

PATRICIA ANDERSON  
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: July 21, 2005



**STATE OF MINNESOTA**  
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PATRICIA ANDERSON  
STATE AUDITOR

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of County Commissioners  
Wadena County

Compliance

We have audited the compliance of Wadena County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2004. 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 on the County's compliance with those requirements.

In our opinion, Wadena County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2004.

### Internal Control Over Compliance

The 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

### Schedule of Expenditures of Federal Awards

We have audited the financial statements of Wadena County as of and for the year ended December 31, 2004, and have issued our report thereon dated July 21, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Wadena County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: July 21, 2005

**WADENA COUNTY  
WADENA, MINNESOTA**

**Schedule 10**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

<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 Human Services Matching Grants for Food Stamp Program	10.561	\$ 1,645
Passed Through Minnesota Department of Health and Cass County Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	51,995
<b>Total U.S. Department of Agriculture</b>		<b>\$ 53,640</b>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation Formula Grants for Other Than Urbanized Areas	20.509	<b>\$ 22,804</b>
<b>U.S. Environmental Protection Agency</b>		
Passed Through Minnesota Department of Public Safety State Indoor Radon Grants	66.032	<b>\$ 4,000</b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Health Temporary Assistance for Needy Families - Home Visiting	93.558	\$ 20,021
Passed Through Minnesota Department of Human Services Temporary Assistance for Needy Families	93.558	123,873
<b>Total CFDA No. 93.558</b>		<b>\$ 143,894</b>
Passed Through Minnesota Department of Human Services and Region 5 Development Commission Title III-B Assessment/Screening	93.044	6,769
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	5,033
Child Care Mandatory and Matching Funds	93.596	130,572
Children's Justice Grants to States	93.643	3,930
Foster Care Title IV-E	93.658	66,725
Social Services Block Grant Title XX	93.667	135,716
Chafee Foster Care Independent Living	93.674	11,554
State Children's Insurance Program	93.767	24
Community Mental Health Services Block Grant	93.958	3,874

**WADENA COUNTY  
WADENA, MINNESOTA**

***Schedule 10  
(Continued)***

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

<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 and Cass County Maternal and Child Health Services Block Grant	93.994	22,656
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 530,747</b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Public Safety State Domestic Preparedness Equipment Support Program	97.004	\$ 10,891
Emergency Management Performance Grants	97.042	4,943
State and Local All Hazards Emergency Operations Planning	97.051	18,943
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 34,777</b>
<b>Total Federal Awards</b>		<b>\$ 645,968</b>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Wadena County. The County's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting. Due to revenue recognition principles of modified accrual, expenditures on this schedule do not equal federal revenues reported in the funds.
3. Pass-through grant numbers were not assigned by the pass-through agencies.
4. During 2004, the County did not pass any federal money to subrecipients.