

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

WADENA COUNTY
WADENA, MINNESOTA

YEAR ENDED DECEMBER 31, 2007

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**WADENA COUNTY
WADENA, MINNESOTA**

Year Ended December 31, 2007



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

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**WADENA COUNTY
WADENA, MINNESOTA**

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WADENA, MINNESOTA**

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**WADENA COUNTY
WADENA, MINNESOTA**

**ORGANIZATION
DECEMBER 31, 2007**

<u>Office</u>	<u>Name</u>	<u>District</u>	<u>Term Expires</u>
Elected			
Commissioners			
Board Member	Lane Waldahl	District 1	January 2011
Vice Chair	Orville Meyer	District 2	January 2009
Chair	William Stearns	District 3	January 2011
Board Member	Mary Harrison	District 4	January 2009
Board Member	David Schermerhorn	District 5	January 2011
Attorney	Kyra Ladd		January 2011
Auditor/Treasurer	Charleen West		January 2011
County Recorder	Soledad Henriksen		January 2011
Registrar of Titles	Soledad Henriksen		January 2011
County Sheriff	Michael D. Carr		January 2011
Appointed			
Assessor	Lee Brekke		December 2008
County Engineer	Joel Ullring		May 2011
Coroner	Tim B. Schmitt, M.D.		Indefinite
Community Corrections Officer	Kathryn Langer		Indefinite
Social Services Director	Paul Sailer		Indefinite
Veteran Services Officer	David Anderson		April 2010

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Wadena County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wadena County, Minnesota, as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements. 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, 2007, 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 and other schedules listed in the table of contents are presented for purposes of additional analysis and are 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 November 12, 2008, 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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

November 12, 2008

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**WADENA COUNTY
WADENA, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007
(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, 2007. 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 \$34,510,157 at the close of 2007. Of this amount, \$3,848,849 (unrestricted net assets) may be used to meet Wadena County's ongoing obligations to citizens and creditors.
- At the close of 2007, Wadena County's governmental funds reported combined ending fund balances of \$4,124,309, a decrease of \$900,445 in comparison with the prior year. Of the total fund balance, \$2,783,316 is available for spending at the County's discretion and is noted as unreserved fund balance.
- At the close of 2007, unreserved fund balance for the General Fund was \$717,857, or 14 percent, of total General Fund expenditures.
- Wadena County currently does not have any bonded indebtedness.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

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

Fund Level Financial Statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Wadena County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. 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 seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road and Bridge Special Revenue Fund, Social Services Special Revenue Fund, and Solid Waste Special Revenue Fund, all of which are considered to be major funds. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements after the notes to the financial statements.

Fiduciary Funds

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

Note to the Financial Statements

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

Other Information

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. Wadena County's assets exceeded liabilities by \$34,510,157 at the close of 2007. The largest portion of Wadena County's net assets, 85 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

	2007	2006
Current and other assets	\$ 7,110,929	\$ 6,963,728
Capital assets	29,218,411	27,806,714
Total Assets	\$ 36,329,340	\$ 34,770,442
Long-term liabilities outstanding	\$ 720,260	\$ 676,856
Other liabilities	1,098,923	699,104
Total Liabilities	\$ 1,819,183	\$ 1,375,960
Net Assets		
Invested in capital assets	\$ 29,218,411	\$ 27,806,714
Restricted	1,442,897	1,362,550
Unrestricted	3,848,849	4,225,218
Total Net Assets	\$ 34,510,157	\$ 33,394,482

The unrestricted net asset amount of \$3,848,849 as of December 31, 2007, may be used to meet the County's ongoing obligations to citizens and creditors.

Governmental Activities

Wadena County's activities increased net assets by \$1,115,675, or 3.3 percent, over the 2006 net assets. The key element of the increase in net assets was the increase in invested in capital assets of \$1,411,697, for general government, public safety, and highways and streets, with the majority of the increase due to road improvements.

Changes in Net Assets

	2007	2006
Revenues		
Program revenues		
Charges for services	\$ 2,792,456	\$ 2,125,981
Operating grants and contributions	6,783,050	6,570,766
Capital grants and contributions	1,203,488	225,758
General revenues	5,642,918	
Property taxes		5,038,369
Other taxes	38,209	-
Grants and contributions not restricted to specific programs	1,786,940	1,748,486
Other	314,610	386,065
Extraordinary item	-	127,879
Total Revenues	<u>\$ 18,561,671</u>	<u>\$ 16,223,304</u>
Expenses		
General government	\$ 2,872,094	\$ 2,901,830
Public safety	2,041,312	1,737,602
Highways and streets	3,172,827	2,684,313
Sanitation	1,016,889	1,057,859
Human services	6,705,809	5,750,961
Health	1,020,488	772,204
Culture and recreation	153,069	178,816
Conservation of natural resources	185,432	193,145
Economic development	278,076	41,422
Total Expenses	<u>\$ 17,445,996</u>	<u>\$ 15,318,152</u>
Increase in Net Assets	\$ 1,115,675	\$ 905,152
Net Assets, January 1	<u>33,394,482</u>	<u>32,489,330</u>
Net Assets, December 31	<u><u>\$ 34,510,157</u></u>	<u><u>\$ 33,394,482</u></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 \$4,124,309, a decrease of \$900,445 in comparison with the prior year. The majority of this amount, \$2,783,316, 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 \$717,857, while total fund balance was \$1,536,541. 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 13.9 percent of total General Fund expenditures. In 2007, fund balance in the General Fund decreased by \$190,601. This decrease was due primarily to a decrease in intergovernmental revenue reimbursement for services of \$129,961, a decrease in federal grants of \$140,328, an increase in public safety expenditures of \$334,326 (E-911 system and county jail), offset by an increase in tax revenue of \$248,120, an increase in charges for services of \$108,241, a decline in culture and recreation expenditures of \$25,747, and a decline in economic development costs of \$38,876.

The Road and Bridge Special Revenue Fund's fund balance decreased \$189,105 due to excess expenditures over revenues of \$190,609 and an increase in inventory of \$1,504. This is due primarily to a decrease in highway user's tax of \$281,787, an increase in highway and streets expenses of \$1,443,953, and an increase in economic development costs (Depot) of \$275,530, offset by an increased tax revenue of \$115,826 and an increase in federal grants (Highway Planning and Construction) of \$1,088,223.

The Social Services Special Revenue Fund's fund balance decreased \$670,645. This is due primarily to an increase in human services expenditures of \$314,594 and an increase in intergovernmental expenditures of \$684,814 (South Country Health Alliance), offset by an increase in tax revenue of \$108,714 and increase in miscellaneous revenue of \$283,860 (MA recoveries).

General Fund Budgetary Highlights

The difference between the original budget and the final amended budget was a change of \$19,197 (the difference between original budgeted net change in fund balance of a decrease of \$5,400 and final budgeted net change in fund balance of an increase of \$13,797). The difference between the actual amounts and the final amended budget was \$204,398 (the difference between actual net change in fund balance of (\$190,601) and final budgeted net change in fund balance of \$13,797). The main revenue variances were a positive variance in intergovernmental revenues and a negative variance in tax revenues. The main expenditure variances were due to an increase in public safety for out-of-county prisoner boarding as well as the replacement of the E-911 system.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2007, was \$29,218,411 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The County's investment in capital assets for the current fiscal year increased 5.0 percent. The net increase was attributed to the County's investment in its infrastructure.

	Governmental Capital Assets	
	2007	2006
Land	\$ 564,578	\$ 563,398
Infrastructure	25,953,114	24,507,585
Buildings	1,655,121	1,774,960
Furniture, equipment, and machinery	1,045,598	960,771
Total	<u>\$ 29,218,411</u>	<u>\$ 27,806,714</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 8.1 percent at the end of 2007. This was above the statewide rate of 5.8 percent.
- Wadena County will be subject to 3.9 percent levy limits for 2009, 2010, and 2011.
- Wadena County is unaware, at this time, whether South Country Health Alliance (SCHA) will be in operation in all of 2009. SCHA is currently in negotiations with the state for 2009 rates and the results of these negotiations will not be known until the end of October 2008. In 2008, the SCHA Joint Powers Agreement was amended to eliminate mandated future cash calls by counties to the organization.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**WADENA COUNTY
WADENA, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2007**

Assets

Cash and pooled investments	\$ 3,902,978
Petty cash and change funds	3,190
Taxes receivable	
Current	167,447
Prior	95,013
Special assessments receivable	
Current	19,750
Prior	12,341
Accounts receivable	173,769
Accrued interest receivable	11,030
Due from other governments	2,200,829
Advances receivable	88,750
Inventories	278,129
Investment in joint venture	157,703
Capital assets	
Non-depreciable	564,578
Depreciable - net of accumulated depreciation	<u>28,653,833</u>
Total Assets	<u>\$ 36,329,340</u>

Liabilities

Accounts payable	\$ 440,045
Salaries payable	225,070
Contracts payable	236,442
Due to other governments	195,572
Customer deposits	1,000
Unearned revenue	794
Long-term liabilities	
Due within one year	396,480
Due in more than one year	<u>323,780</u>
Total Liabilities	<u>\$ 1,819,183</u>

Net Assets

Invested in capital assets	\$ 29,218,411
Restricted for	
General government	211,565
Public safety	184,599
Highways and streets	1,046,733
Unrestricted	<u>3,848,849</u>
Total Net Assets	<u>\$ 34,510,157</u>

**WADENA COUNTY
WADENA, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	
	Expenses				
<u>Functions/Programs</u>					
Primary government					
Governmental activities					
General government	\$ 2,872,094	\$ 403,077	\$ 49,696	\$ -	\$ (2,419,321)
Public safety	2,041,312	127,905	161,854	-	(1,751,553)
Highways and streets	3,172,827	81,609	2,257,373	872,044	38,199
Sanitation	1,016,889	580,547	418,424	-	(17,918)
Human services	6,705,809	1,163,677	3,233,029	-	(2,309,103)
Health	1,020,488	398,688	559,007	-	(62,793)
Culture and recreation	153,069	12,313	26,731	-	(114,025)
Conservation of natural resources	185,432	21,452	76,586	-	(87,394)
Economic development	278,076	3,188	350	331,444	56,906
Total Governmental Activities	\$ 17,445,996	\$ 2,792,456	\$ 6,783,050	\$ 1,203,488	\$ (6,667,002)
General Revenues					
Property taxes					\$ 5,642,918
Mineral taxes					202
Other taxes					175
Payments in lieu of tax					37,832
Grants and contributions not restricted to specific programs					1,786,940
Unrestricted investment earnings					177,244
Miscellaneous					137,366
Total general revenues					\$ 7,782,677
Change in Net Assets					\$ 1,115,675
Net Assets - Beginning					33,394,482
Net Assets - Ending					\$ 34,510,157

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, 2007**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Solid Waste</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>						
Cash and pooled investments	\$ 1,266,166	\$ 665,590	\$ 951,245	\$ 632,205	\$ 263,636	\$ 3,778,842
Petty cash and change funds	2,700	100	200	50	140	3,190
Undistributed cash in agency funds	64,021	22,717	25,319	12,079	-	124,136
Taxes receivable						
Current	88,340	36,880	42,227	-	-	167,447
Prior	52,456	18,491	24,066	-	-	95,013
Special assessments receivable						
Current	-	-	-	19,750	-	19,750
Prior	-	-	-	12,341	-	12,341
Accounts receivable	6,623	1,177	57,592	66,140	42,237	173,769
Accrued interest receivable	10,865	-	-	-	165	11,030
Due from other funds	21,504	2,690	6,963	-	2,965	34,122
Due from other governments	43,936	1,525,744	442,655	1,981	184,185	2,198,501
Inventories	-	278,129	-	-	-	278,129
Advances to other funds	407,500	11,250	37,500	3,750	3,750	463,750
Total Assets	<u>\$ 1,964,111</u>	<u>\$ 2,562,768</u>	<u>\$ 1,587,767</u>	<u>\$ 748,296</u>	<u>\$ 497,078</u>	<u>\$ 7,360,020</u>
<u>Liabilities and Fund Balances</u>						
Liabilities						
Accounts payable	\$ 126,129	\$ 62,133	\$ 211,332	\$ 24,328	\$ 16,123	\$ 440,045
Salaries payable	82,939	42,984	62,841	2,456	33,850	225,070
Contracts payable	-	236,442	-	-	-	236,442
Due to other funds	9,413	133	9,812	-	23,237	42,595
Due to other governments	77,080	3,901	55,280	29,211	19,299	184,771
Deferred revenue - unavailable	132,009	1,353,685	104,519	24,418	115,363	1,729,994
Deferred revenue - unearned	-	-	794	-	-	794
Advance from other funds	-	-	375,000	-	-	375,000
Customer deposits	-	1,000	-	-	-	1,000
Total Liabilities	<u>\$ 427,570</u>	<u>\$ 1,700,278</u>	<u>\$ 819,578</u>	<u>\$ 80,413</u>	<u>\$ 207,872</u>	<u>\$ 3,235,711</u>

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

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**WADENA COUNTY
WADENA, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Solid Waste</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Liabilities and Fund Balances</u> (Continued)						
Fund Balances						
Reserved for						
Encumbrances	\$ -	\$ 105,614	\$ -	\$ -	\$ -	\$ 105,614
Advances to other funds	407,500	11,250	37,500	3,750	3,750	463,750
Inventories	-	278,129	-	-	-	278,129
Utility deposits	-	500	-	-	-	500
Emergency management	479	-	-	-	-	479
SCORE	-	-	-	57,324	-	57,324
State-aid highway projects	-	24,492	-	-	-	24,492
Missing heirs	15,020	-	-	-	-	15,020
Law library	3,780	-	-	-	-	3,780
Recorder's equipment	52,098	-	-	-	-	52,098
Sheriff's contingency	5,000	-	-	-	-	5,000
Enhanced 911	154,756	-	-	-	-	154,756
Compliance fund	70,189	-	-	-	-	70,189
Sheriff's forfeited property	24,364	-	-	-	-	24,364
Attorney's forfeited property	21,857	-	-	-	-	21,857
HAVA	63,641	-	-	-	-	63,641
Unreserved						
Designated for future expenditures	499,744	-	-	-	-	499,744
Designated for cash flows	218,113	200,000	672,379	-	-	1,090,492
Designated for mental health initiative	-	-	50,447	-	-	50,447
Designated for peer center	-	-	7,863	-	-	7,863
Undesignated	-	242,505	-	606,809	-	849,314
Unreserved, reported in nonmajor Special revenue funds	-	-	-	-	285,456	285,456
Total Fund Balances	\$ 1,536,541	\$ 862,490	\$ 768,189	\$ 667,883	\$ 289,206	\$ 4,124,309
Total Liabilities and Fund Balances	\$ 1,964,111	\$ 2,562,768	\$ 1,587,767	\$ 748,296	\$ 497,078	\$ 7,360,020

**WADENA COUNTY
WADENA, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2007**

Fund balances - total governmental funds (Exhibit 3)	\$	4,124,309
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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.		29,218,411
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Investment in joint venture is not available to pay for current period expenditures and, therefore, is not reported in the governmental funds.		157,703
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Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		1,729,994
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.

Compensated absences		<u>(720,260)</u>
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Net Assets of Governmental Activities (Exhibit 1)	\$	<u>34,510,157</u>
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**WADENA COUNTY
WADENA, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Solid Waste</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues						
Taxes	\$ 2,979,548	\$ 1,217,436	\$ 1,394,351	\$ 11,781	\$ -	\$ 5,603,116
Special assessments	-	-	-	414,312	-	414,312
Licenses and permits	38,543	-	-	175	24,668	63,386
Intergovernmental	1,252,978	3,477,398	3,366,174	52,039	791,788	8,940,377
Charges for services	295,464	-	-	580,371	191,939	1,067,774
Fines and forfeits	63,652	-	-	-	-	63,652
Gifts and contributions	1,490	-	-	-	10,964	12,454
Investment earnings	174,599	-	-	-	1,466	176,065
Miscellaneous	282,988	84,574	1,073,691	-	290,436	1,731,689
Total Revenues	\$ 5,089,262	\$ 4,779,408	\$ 5,834,216	\$ 1,058,678	\$ 1,311,261	\$ 18,072,825
Expenditures						
Current						
General government	\$ 2,783,921	\$ -	\$ -	\$ -	\$ -	\$ 2,783,921
Public safety	2,047,749	-	-	-	-	2,047,749
Highways and streets	-	4,571,995	-	-	-	4,571,995
Sanitation	-	-	-	993,499	-	993,499
Human services	-	-	5,767,377	-	376,614	6,143,991
Health	-	-	-	-	1,010,380	1,010,380
Culture and recreation	153,069	-	-	-	-	153,069
Conservation of natural resources	181,793	-	-	-	2,995	184,788
Economic development	2,546	275,530	-	-	-	278,076
Intergovernmental	-	122,492	684,814	-	-	807,306
Total Expenditures	\$ 5,169,078	\$ 4,970,017	\$ 6,452,191	\$ 993,499	\$ 1,389,989	\$ 18,974,774
Excess of Revenues Over (Under) Expenditures	\$ (79,816)	\$ (190,609)	\$ (617,975)	\$ 65,179	\$ (78,728)	\$ (901,949)
Other Financing Sources (Uses)						
Transfers in	\$ 17,993	\$ -	\$ -	\$ -	\$ 181,448	\$ 199,441
Transfers out	(128,778)	-	(52,670)	-	(17,993)	(199,441)
Total Other Financing Sources (Uses)	\$ (110,785)	\$ -	\$ (52,670)	\$ -	\$ 163,455	\$ -
Net Change in Fund Balance	\$ (190,601)	\$ (190,609)	\$ (670,645)	\$ 65,179	\$ 84,727	\$ (901,949)
Fund Balance - January 1	1,727,142	1,051,595	1,438,834	602,704	204,479	5,024,754
Increase (decrease) in reserved for inventories	-	1,504	-	-	-	1,504
Fund Balance - December 31	\$ 1,536,541	\$ 862,490	\$ 768,189	\$ 667,883	\$ 289,206	\$ 4,124,309

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 BALANCE OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

Net change in fund balances - total governmental funds (Exhibit 5)	\$	(901,949)
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Amounts reported for governmental activities in the statement of activities are different because:

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

Deferred revenue - December 31	\$ 1,729,994	
Deferred revenue - January 1	<u>(1,239,870)</u>	490,124

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

Expenditures for general capital assets and infrastructure	\$ 2,697,990	
Current year depreciation	<u>(1,286,293)</u>	1,411,697

In the statement of net assets, an asset is reported for the equity interest in joint ventures. The change in net assets differs from the change in fund balance by the increases and decreases in the investment in joint venture.	157,703
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in compensated absences	\$ (43,404)	
Change in inventories	<u>1,504</u>	<u>(41,900)</u>

Change in Net Assets of Governmental Activities (Exhibit 2)	\$	<u>1,115,675</u>
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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, 2007**

	Family Service Collaborative Investment Trust	Health Reimbursement Employee Benefit Trust	Agency Funds
	<hr/>	<hr/>	<hr/>
<u>Assets</u>			
Cash and pooled investments	\$ 126,414	\$ 164,052	\$ 151,664
Receivables			
Interest	362	-	-
Due from other funds	10,801	-	-
Due from other governments	759	-	-
	<hr/>	<hr/>	<hr/>
Total Assets	\$ 138,336	\$ 164,052	\$ 151,664
	<hr/>	<hr/>	<hr/>
<u>Liabilities</u>			
Accounts payable	\$ 6,659	\$ -	\$ -
Due to other funds	2,328	-	-
Due to other governments	-	-	151,664
Deferred revenue - unavailable	759	-	-
Advances from governmental funds	-	88,750	-
	<hr/>	<hr/>	<hr/>
Total Liabilities	\$ 9,746	\$ 88,750	\$ 151,664
	<hr/>	<hr/>	<hr/>
<u>Net Assets</u>			
Net assets, held in trust for pool participants	\$ 128,590	\$ -	
Net assets, held in trust for employees	-	75,302	
	<hr/>	<hr/>	
Total Net Assets	\$ 128,590	\$ 75,302	
	<hr/>	<hr/>	

**WADENA COUNTY
WADENA, MINNESOTA**

EXHIBIT 8

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Family Service Collaborative Investment Trust	Health Reimbursement Employee Benefit Trust
	<hr/>	<hr/>
<u>Additions</u>		
Contributions from employers	\$ -	\$ 80,310
Contributions from participants	37,301	-
Investment earnings		
Interest	5,256	-
	<hr/>	<hr/>
Total Additions	\$ 42,557	\$ 80,310
	<hr/>	<hr/>
<u>Deductions</u>		
Benefits	\$ -	\$ 65,271
Pool participant withdrawals	40,661	-
	<hr/>	<hr/>
Total Deductions	\$ 40,661	\$ 65,271
	<hr/>	<hr/>
Change in Net Assets	\$ 1,896	\$ 15,039
	<hr/>	<hr/>
Net Assets - Beginning of the Year	126,694	60,263
	<hr/>	<hr/>
Net Assets - End of the Year	\$ 128,590	\$ 75,302
	<hr/> <hr/>	<hr/> <hr/>

**WADENA COUNTY
WADENA, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2007**

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, 2007. 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 described in Note 6.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.

**WADENA COUNTY
WADENA, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those 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 restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

**WADENA COUNTY
WADENA, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

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

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

Additionally, the County reports the following fund types:

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

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

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

C. Measurement Focus and Basis of Accounting

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

**WADENA COUNTY
WADENA, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Wadena County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. Proceeds of 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 needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2007, 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 2007 were \$181,321.

2. External Investment Pools

Included in total cash and pooled investments are the assets held for the Wadena County Family Service Collaborative in an external investment pool. For the purposes of financial reporting, the Family Service Collaborative's portion of the County's pool of cash and investments is reported as an investment trust fund.

**WADENA COUNTY
WADENA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. External Investment Pools (Continued)

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 is 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.

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

4. Inventories and Prepaid Items

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**WADENA COUNTY
WADENA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Restricted Assets

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

6. Capital Assets

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

<u>Assets</u>	<u>Capitalization Threshold</u>
Land	\$ 1
Land improvements	25,000
Buildings	25,000
Building improvements	25,000
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 assets' lives are not capitalized.

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

**WADENA COUNTY
WADENA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

6. Capital Assets (Continued)

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

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

7. Compensated Absences

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

8. Deferred Revenue

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

**WADENA COUNTY
WADENA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

The following is a summary of individual funds that had expenditures in excess of budget for the year ended December 31, 2007.

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 5,169,078	\$ 4,771,642	\$ 397,436
Special Revenue Funds			
Social Services	6,452,191	5,233,412	1,218,779
Solid Waste	993,499	958,655	34,844
Transit	376,614	330,000	46,614

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

The County's total cash and investments follow:

Governmental activities	
Cash and pooled investments	\$ 3,902,978
Petty cash and change funds	3,190
Fiduciary funds	
Cash and pooled investments	
Investment trust fund	126,414
Employee benefit trust fund	164,052
Agency funds	<u>151,664</u>
Total Cash and Investments	<u>\$ 4,348,298</u>

**WADENA COUNTY
WADENA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2007, the County's deposits were not exposed to custodial credit risk.

**WADENA COUNTY
WADENA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

During the year ended December 31, 2007, the County had no investments.

**WADENA COUNTY
WADENA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2007, for the County's governmental activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 262,460	\$ -
Special assessments	32,091	-
Accounts	173,769	-
Interest	11,030	-
Due from other governments	2,200,829	-
Advances receivable	88,750	-
Total Governmental Activities	\$ 2,768,929	\$ -

3. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 563,398	\$ 1,180	\$ -	\$ 564,578
Capital assets depreciated				
Buildings	\$ 4,596,787	\$ -	\$ -	\$ 4,596,787
Machinery, furniture, and equipment	3,003,002	380,928	65,881	3,318,049
Infrastructure	35,613,877	2,315,882	-	37,929,759
Total capital assets depreciated	\$ 43,213,666	\$ 2,696,810	\$ 65,881	\$ 45,844,595
Less: accumulated depreciation for				
Buildings	\$ 2,821,827	\$ 119,839	\$ -	\$ 2,941,666
Machinery, furniture, and equipment	2,042,231	296,101	65,881	2,272,451
Infrastructure	11,106,292	870,353	-	11,976,645
Total accumulated depreciation	\$ 15,970,350	\$ 1,286,293	\$ 65,881	\$ 17,190,762
Total capital assets depreciated, net	\$ 27,243,316	\$ 1,410,517	\$ -	\$ 28,653,833
Governmental Activities Capital Assets, Net	\$ 27,806,714	\$ 1,411,697	\$ -	\$ 29,218,411

**WADENA COUNTY
WADENA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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

Governmental Activities	
General government	\$ 95,470
Public safety	60,426
Highways and streets, including depreciation of infrastructure assets	1,066,917
Sanitation	21,765
Human services	39,200
Health	2,515
	<hr/>
Total Depreciation Expense - Governmental Activities	\$ 1,286,293

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2007, is as follows:

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Road and Bridge	\$ 133
	Social Services	2,807
	Other governmental funds	18,558
	Investment Trust	6
		<hr/>
Total due to General Fund		\$ 21,504
Road and Bridge	General	\$ 2,690
Social Services	General	\$ 4,778
	Other governmental funds	679
	Investment Trust	1,506
		<hr/>
Total due to Social Services Fund		\$ 6,963

**WADENA COUNTY
WADENA, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds (Continued)

Receivable Fund	Payable Fund	Amount
Other governmental funds	General	\$ 1,945
	Social Services	204
	Investment Trust	816
Total due to other governmental funds		\$ 2,965
Investment Trust	Social Services	\$ 6,801
	Other governmental funds	4,000
Total due to Investment Trust Fund		\$ 10,801
Total Due To/From Other Funds		\$ 44,923

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

2. Advances To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Social Services	\$ 375,000
	Employee Benefit Trust	32,500
Total advances to General Fund		\$ 407,500
Road and Bridge	Employee Benefit Trust	11,250
Social Services	Employee Benefit Trust	37,500
Solid Waste	Employee Benefit Trust	3,750
Other governmental funds	Employee Benefit Trust	3,750
Total Advances To/From Other Funds		\$ 463,750

**WADENA COUNTY
WADENA, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

2. Advances To/From Other Funds (Continued)

Advances were made to the Health Reimbursement Employee Benefit Trust Fund to cover benefit payments until payroll deductions are built up to cover them. The advances will be repaid within the plan year, which ends September 30, 2008. An advance was also made to the Social Services Special Revenue Fund from the General Fund for partial payment of the County's membership fee to the South Country Health Alliance.

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2007, consisted of the following:

Transfers to General Fund from other governmental funds	\$ 17,993	Forfeited tax settlements
Transfers to other governmental funds from General Fund	128,778	Provide funds for County levy
Transfers to other governmental funds from Social Services Fund	<u>52,670</u>	Salary reimbursement
Total Interfund Transfers	<u>\$ 199,441</u>	

C. Liabilities

1. Payables

Payables at December 31, 2007, were as follows:

	<u>Governmental Activities</u>
Accounts	\$ 440,045
Salaries	225,070
Contracts payable	236,442
Due to other governments	<u>195,572</u>
Total Payables	<u>\$ 1,097,129</u>

**WADENA COUNTY
WADENA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Construction Commitments

The government has active construction projects as of December 31, 2007. The projects include the following:

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Governmental Activities		
Roads and bridges	\$ 1,410,494	\$ -
Depot project	<u>275,531</u>	<u>93,844</u>
Total Governmental Activities	<u>\$ 1,686,025</u>	<u>\$ 93,844</u>

3. Deferred Revenues

Deferred revenues as of December 31, 2007, for the County's governmental funds are as follows:

	<u>Deferred Unavailable</u>	<u>Deferred Unearned</u>
Governmental Funds		
Taxes	\$ 211,075	\$ -
Special assessments	24,295	-
Intergovernmental revenue	1,452,993	794
Charges for services	6,303	-
Other	<u>35,328</u>	<u>-</u>
Total Governmental Funds	<u>\$ 1,729,994</u>	<u>\$ 794</u>

4. 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 purposes of financial reporting, these health reimbursement accounts are reported as an employee benefit trust fund.

**WADENA COUNTY
WADENA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Health Reimbursement Account (Continued)

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

As of December 31, 2007, 56 employees had health reimbursement accounts. The County advanced \$88,750 to the Employee Benefit Trust Fund as of December 31, 2007.

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, 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	<u>\$ 676,856</u>	<u>\$ 497,609</u>	<u>\$ 454,205</u>	<u>\$ 720,260</u>	<u>\$ 396,480</u>

4. Employee Retirement Systems and Pension Plans

A. Defined Benefits Plans

Plan Description

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

**WADENA COUNTY
WADENA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefits Plans

Plan Description (Continued)

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 police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund.

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 defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for 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.

**WADENA COUNTY
WADENA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefits Plans

Plan Description (Continued)

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. 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 5.75 percent, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan increased in 2008 to 6.00 percent. Public Employees Police and Fire Fund members are required to contribute 7.80 percent of their annual covered salary in 2007. The rate increased to 8.60 percent in 2008. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2007 and 2008:

	<u>2007</u>	<u>2008</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.25	6.50
Public Employees Police and Fire Fund	11.70	12.90
Public Employees Correctional Fund	8.75	8.75

**WADENA COUNTY
WADENA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefits Plans

Funding Policy (Continued)

The County's contributions for the years ending December 31, 2007, 2006, and 2005, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2007	\$ 307,924	\$ 41,346	\$ 34,921
2006	261,091	40,719	35,127
2005	237,608	32,034	23,406

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

B. Defined Contribution Plan

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

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

**WADENA COUNTY
WADENA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2007, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 1,871	\$ 1,871
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

5. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties 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 MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$400,000 per claim in 2007 and \$410,000 per claim in 2008. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

**WADENA COUNTY
WADENA, MINNESOTA**

5. Risk Management (Continued)

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

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

Amounts received or receivable from 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

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.

**WADENA COUNTY
WADENA, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Todd-Wadena Community Corrections (Continued)

Separate financial information can be obtained from:

Todd-Wadena Community Corrections
239 Central Avenue
Long Prairie, Minnesota 56347

Northwestern Counties Data Processing Security Association

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

Control of the NCDPSA is vested in the NCDPSA Joint Powers Board, which 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**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

West Central Minnesota Drug Task Force

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

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

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

Wadena County Family Service Collaborative

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

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

**WADENA COUNTY
WADENA, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Wadena County Family Service Collaborative (Continued)

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

Financing is provided by state grants and appropriations from its members. Wadena County, in an agent capacity, reports the cash transactions of the Wadena County Family Service Collaborative as an investment trust fund on the County's financial statements. During 2007, the County contributed \$1,000 to the Collaborative.

Morrison-Todd-Wadena Community Health Services Board

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

The three counties share responsibility to provide secretarial and financial services and to carry out the administrative requirements of the Board of Health. The three public health directors rotate the administrator position each year. During 2007, the County contributed \$1,650 to the Health Services Board. Separate financial information is not available.

**WADENA COUNTY
WADENA, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

South Country Health Alliance

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

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

Each member county has an explicit and measurable right to its share of the total capital surplus of the SCHA. Gains and losses are allocated annually to all members based on the percentage of their utilization. The County's equity interest in the SCHA at December 31, 2007, was \$157,703. Wadena County's share of SCHA's net loss was \$527,111. The equity interest is reported as an investment in joint venture on the government-wide statement of net assets. Changes in equity are included in the government-wide statement of activities as Human Services.

Complete financial statements for the SCHA may be obtained from its fiscal agent at 630 Florence Avenue, P. O. Box 890, Owatonna, Minnesota 55060-0890.

C. Subsequent Event

The joint venture, South Country Health Alliance, has recommended in 2008 a capital call from the County of \$587,489.00 payable in two installments. The first installment of \$293,744.50 was paid on May 27, 2008, by the County, and the second-half installment of \$293,744.50 is due no later than November 25, 2008.

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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, 2007**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 3,544,044	\$ 3,544,044	\$ 2,979,548	\$ (564,496)
Licenses and permits	35,210	35,210	38,543	3,333
Intergovernmental	790,775	790,775	1,252,978	462,203
Charges for services	163,570	163,570	295,464	131,894
Fines and forfeits	20,750	20,750	63,652	42,902
Gifts and contributions	-	-	1,490	1,490
Investment earnings	125,000	125,000	174,599	49,599
Miscellaneous	215,671	234,868	282,988	48,120
Total Revenues	\$ 4,895,020	\$ 4,914,217	\$ 5,089,262	\$ 175,045
Expenditures				
Current				
General government				
Commissioners	\$ 126,050	\$ 126,050	\$ 129,853	\$ (3,803)
Courts	7,000	7,000	10,150	(3,150)
Coordinator	45,000	45,000	-	45,000
County auditor/treasurer	499,900	499,900	521,601	(21,701)
County assessor	312,269	312,269	318,775	(6,506)
Elections	1,950	1,950	-	1,950
Voter registration	500	500	311	189
Data processing	343,801	343,801	325,586	18,215
Central services	86,350	86,350	77,075	9,275
Attorney	253,791	253,791	240,748	13,043
Law library	27,500	27,500	31,602	(4,102)
Attorney for misdemeanants	20,000	20,000	56,231	(36,231)
Recorder	137,410	137,410	151,547	(14,137)
Planning and zoning	113,058	113,058	86,460	26,598
GIS and GPS	17,000	17,000	36,542	(19,542)
Buildings and plant	413,535	368,535	379,354	(10,819)
County buildings	-	170,000	154,192	15,808
Veterans service officer	38,425	38,425	39,155	(730)
Unallocated	212,626	212,626	224,739	(12,113)
Total general government	\$ 2,656,165	\$ 2,781,165	\$ 2,783,921	\$ (2,756)

**WADENA COUNTY
WADENA, MINNESOTA**

**Schedule 1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 1,237,982	\$ 1,237,982	\$ 1,307,529	\$ (69,547)
Boat and water safety	2,504	2,504	5,591	(3,087)
Sheriff's forfeiture	400	400	39,019	(38,619)
Coroner	13,500	13,500	31,418	(17,918)
ATV grant	3,083	3,083	2,956	127
E-911 system	23,079	23,079	127,983	(104,904)
Law enforcement center	185,560	185,560	326,937	(141,377)
Community corrections	112,149	112,149	112,149	-
Civil defense	60,782	60,782	86,376	(25,594)
Snowmobile safety enforcement	3,935	3,935	3,936	(1)
County safety program	4,644	4,644	3,855	789
Total public safety	\$ 1,647,618	\$ 1,647,618	\$ 2,047,749	\$ (400,131)
Culture and recreation				
Historical society	\$ 5,174	\$ 5,174	\$ 3,200	\$ 1,974
Parks	33,757	33,757	37,831	(4,074)
Humane society	750	750	750	-
Regional library	88,305	88,305	88,306	(1)
Celebrations	280	280	-	280
Snowmobile trails	32,000	32,000	22,982	9,018
Total culture and recreation	\$ 160,266	\$ 160,266	\$ 153,069	\$ 7,197
Conservation of natural resources				
County extension	\$ 94,240	\$ 94,240	\$ 91,038	\$ 3,202
Soil and water conservation	35,103	35,103	37,418	(2,315)
Agricultural inspection	13,000	13,000	13,075	(75)
Agricultural society/County fair	35,250	35,250	35,250	-
Tree planting	5,000	5,000	5,012	(12)
Total conservation of natural resources	\$ 182,593	\$ 182,593	\$ 181,793	\$ 800
Economic development				
Community development	\$ 125,000	\$ -	\$ 2,546	\$ (2,546)
Total Expenditures	\$ 4,771,642	\$ 4,771,642	\$ 5,169,078	\$ (397,436)
Excess of Revenues Over (Under)				
Expenditures	\$ 123,378	\$ 142,575	\$ (79,816)	\$ (222,391)

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

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**WADENA COUNTY
WADENA, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Other Financing Sources (Uses)				
Transfers in	\$ 23,000	\$ 23,000	\$ 17,993	\$ (5,007)
Transfers out	(151,778)	(151,778)	(128,778)	23,000
Total Other Financing Sources (Uses)	\$ (128,778)	\$ (128,778)	\$ (110,785)	\$ 17,993
Change in Fund Balance	\$ (5,400)	\$ 13,797	\$ (190,601)	\$ (204,398)
Fund Balance - January 1	1,727,142	1,727,142	1,727,142	-
Fund Balance - December 31	\$ 1,721,742	\$ 1,740,939	\$ 1,536,541	\$ (204,398)

**WADENA COUNTY
WADENA, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 1,415,000	\$ 1,415,000	\$ 1,217,436	\$ (197,564)
Intergovernmental	3,887,080	3,887,080	3,477,398	(409,682)
Miscellaneous	-	-	84,574	84,574
Total Revenues	\$ 5,302,080	\$ 5,302,080	\$ 4,779,408	\$ (522,672)
Expenditures				
Current				
Highways and streets				
Administration	\$ 1,375,912	\$ 1,375,912	\$ 382,982	\$ 992,930
Maintenance	1,049,550	1,049,550	1,654,067	(604,517)
Construction	2,593,000	2,593,000	2,284,227	308,773
Equipment maintenance and shop	158,100	158,100	245,023	(86,923)
Other	-	-	5,696	(5,696)
Total highways and streets	\$ 5,176,562	\$ 5,176,562	\$ 4,571,995	\$ 604,567
Economic development				
Community development	-	-	275,530	(275,530)
Intergovernmental				
Highways and streets	125,000	125,000	122,492	2,508
Total Expenditures	\$ 5,301,562	\$ 5,301,562	\$ 4,970,017	\$ 331,545
Excess of Revenues Over (Under)				
Expenditures	\$ 518	\$ 518	\$ (190,609)	\$ (191,127)
Fund Balance - January 1	1,051,595	1,051,595	1,051,595	-
Increase in reserved for inventories	-	-	1,504	1,504
Fund Balance - December 31	\$ 1,052,113	\$ 1,052,113	\$ 862,490	\$ (189,623)

**WADENA COUNTY
WADENA, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 1,620,219	\$ 1,620,219	\$ 1,394,351	\$ (225,868)
Intergovernmental	3,006,196	3,006,196	3,366,174	359,978
Miscellaneous	681,997	681,997	1,073,691	391,694
Total Revenues	\$ 5,308,412	\$ 5,308,412	\$ 5,834,216	\$ 525,804
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,467,851	\$ 1,467,851	\$ 1,867,743	\$ (399,892)
Social services	3,765,561	3,765,561	3,899,634	(134,073)
Total human services	\$ 5,233,412	\$ 5,233,412	\$ 5,767,377	\$ (533,965)
Intergovernmental				
Human services	-	-	684,814	(684,814)
Total Expenditures	\$ 5,233,412	\$ 5,233,412	\$ 6,452,191	\$ (1,218,779)
Excess of Revenues Over (Under)				
Expenditures	\$ 75,000	\$ 75,000	\$ (617,975)	\$ (692,975)
Other Financing Sources (Uses)				
Transfers out	-	-	(52,670)	(52,670)
Net Change in Fund Balance	\$ 75,000	\$ 75,000	\$ (670,645)	\$ (745,645)
Fund Balance - January 1	1,438,834	1,438,834	1,438,834	-
Fund Balance - December 31	\$ 1,513,834	\$ 1,513,834	\$ 768,189	\$ (745,645)

**WADENA COUNTY
WADENA, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 9,160	\$ 9,160	\$ 11,781	\$ 2,621
Special assessments	405,115	405,115	414,312	9,197
Licenses and permits	125	125	175	50
Intergovernmental	49,079	49,079	52,039	2,960
Charges for services	501,836	501,836	580,371	78,535
Total Revenues	\$ 965,315	\$ 965,315	\$ 1,058,678	\$ 93,363
Expenditures				
Current				
Sanitation				
Solid waste	\$ 819,372	\$ 819,372	\$ 828,402	\$ (9,030)
Recycling	139,283	139,283	165,097	(25,814)
Total Expenditures	\$ 958,655	\$ 958,655	\$ 993,499	\$ (34,844)
Excess of Revenues Over (Under)				
Expenditures	\$ 6,660	\$ 6,660	\$ 65,179	\$ 58,519
Other Financing Sources (Uses)				
Transfers in	\$ 64,234	\$ 64,234	\$ -	\$ (64,234)
Transfers out	(64,234)	(64,234)	-	64,234
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ -	\$ -
Net Change in Fund Balance	\$ 6,660	\$ 6,660	\$ 65,179	\$ 58,519
Fund Balance - January 1	602,704	602,704	602,704	-
Fund Balance - December 31	\$ 609,364	\$ 609,364	\$ 667,883	\$ 58,519

**WADENA COUNTY
WADENA, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2007**

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the Forfeited Tax Sale Special Revenue Fund. 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 budgetary amendments throughout the governmental funds.

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

The following is a summary of certain individual funds which had expenditures in excess of budgeted expenditures for the year ended December 31, 2007. These over-expenditures were funded by greater than anticipated revenues.

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 5,169,078	\$ 4,771,642	\$ 397,436
Special Revenue Fund			
Social Services	6,452,191	5,233,412	1,218,779
Solid Waste	993,499	958,655	34,844

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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.

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

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

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**WADENA COUNTY
WADENA, MINNESOTA**

Statement A-1

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2007**

	Public Health Nurse	Forfeited Tax Sale	Transit	Total (Exhibit 3)
<u>Assets</u>				
Cash and pooled investments	\$ 160,115	\$ 31,023	\$ 72,498	\$ 263,636
Petty cash and change funds	40	-	100	140
Accounts receivable	26,173	-	16,064	42,237
Accrued interest receivable	-	-	165	165
Due from other funds	2,965	-	-	2,965
Due from other governments	146,488	-	37,697	184,185
Advance to other funds	3,750	-	-	3,750
Total Assets	\$ 339,531	\$ 31,023	\$ 126,524	\$ 497,078
<u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ 6,914	\$ -	\$ 9,209	\$ 16,123
Salaries payable	28,144	-	5,706	33,850
Due to other funds	4,513	17,993	731	23,237
Due to other governments	6,269	13,030	-	19,299
Deferred revenue - unavailable	77,666	-	37,697	115,363
Total Liabilities	\$ 123,506	\$ 31,023	\$ 53,343	\$ 207,872
Fund Balances				
Reserved for advances to other funds	\$ 3,750	\$ -	\$ -	\$ 3,750
Unreserved Undesignated	212,275	-	73,181	285,456
Total Fund Balances	\$ 216,025	\$ -	\$ 73,181	\$ 289,206
Total Liabilities and Fund Balances	\$ 339,531	\$ 31,023	\$ 126,524	\$ 497,078

**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, 2007**

	Public Health Nurse	Forfeited Tax Sale	Transit	Total (Exhibit 5)
Revenues				
Licenses and permits	\$ 24,668	\$ -	\$ -	\$ 24,668
Intergovernmental	495,435	-	296,353	791,788
Charges for services	147,618	-	44,321	191,939
Gifts and contributions	-	-	10,964	10,964
Investment earnings	-	-	1,466	1,466
Miscellaneous	225,427	20,988	44,021	290,436
	<u>893,148</u>	<u>20,988</u>	<u>397,125</u>	<u>1,311,261</u>
Total Revenues	\$ 893,148	\$ 20,988	\$ 397,125	\$ 1,311,261
Expenditures				
Current				
Human services	\$ -	\$ -	\$ 376,614	\$ 376,614
Health	1,010,380	-	-	1,010,380
Conservation of natural resources	-	2,995	-	2,995
	<u>1,010,380</u>	<u>2,995</u>	<u>376,614</u>	<u>1,389,989</u>
Total Expenditures	\$ 1,010,380	\$ 2,995	\$ 376,614	\$ 1,389,989
Excess of Revenues Over (Under)				
Expenditures	\$ (117,232)	\$ 17,993	\$ 20,511	\$ (78,728)
Other Financing Sources (Uses)				
Transfers in	\$ 128,778	\$ -	\$ 52,670	\$ 181,448
Transfers out	-	(17,993)	-	(17,993)
	<u>128,778</u>	<u>(17,993)</u>	<u>52,670</u>	<u>163,455</u>
Total Other Financing Sources (Uses)	\$ 128,778	\$ (17,993)	\$ 52,670	\$ 163,455
Net Change in Fund Balance	\$ 11,546	\$ -	\$ 73,181	\$ 84,727
Fund Balance - January 1	204,479	-	-	204,479
Fund Balance - December 31	\$ 216,025	\$ -	\$ 73,181	\$ 289,206

**WADENA COUNTY
WADENA, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
PUBLIC HEALTH NURSE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Revenues				
Licenses and permits	\$ 21,621	\$ 21,621	\$ 24,668	\$ 3,047
Intergovernmental	564,712	564,712	495,435	(69,277)
Charges for services	170,437	170,437	147,618	(22,819)
Miscellaneous	161,764	161,764	225,427	63,663
Total Revenues	\$ 918,534	\$ 918,534	\$ 893,148	\$ (25,386)
Expenditures				
Current				
Health				
Nursing service	1,047,312	1,047,312	1,010,380	36,932
Excess of Revenues Over (Under)				
Expenditures	\$ (128,778)	\$ (128,778)	\$ (117,232)	\$ 11,546
Other Financing Sources (Uses)				
Transfers in	128,778	128,778	128,778	-
Net Change in Fund Balance	\$ -	\$ -	\$ 11,546	\$ 11,546
Fund Balance - January 1	204,479	204,479	204,479	-
Fund Balance - December 31	\$ 204,479	\$ 204,479	\$ 216,025	\$ 11,546

**WADENA COUNTY
WADENA, MINNESOTA**

Schedule 6

**BUDGETARY COMPARISON SCHEDULE
TRANSIT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Intergovernmental	\$ 338,500	\$ 338,500	\$ 296,353	\$ (42,147)
Charges for services	49,500	49,500	44,321	(5,179)
Gifts and contributions	-	-	10,964	10,964
Investment earnings	-	-	1,466	1,466
Miscellaneous	25,000	25,000	44,021	19,021
Total Revenues	\$ 413,000	\$ 413,000	\$ 397,125	\$ (15,875)
Expenditures				
Current				
Human services				
Transportation	330,000	330,000	376,614	(46,614)
Excess of Revenues Over (Under)				
Expenditures	\$ 83,000	\$ 83,000	\$ 20,511	\$ (62,489)
Other Financing Sources (Uses)				
Transfers in	-	-	52,670	52,670
Net Change in Fund Balance	\$ 83,000	\$ 83,000	\$ 73,181	\$ (9,819)
Fund Balance - January 1	-	-	-	-
Fund Balance - December 31	\$ 83,000	\$ 83,000	\$ 73,181	\$ (9,819)

**WADENA COUNTY
WADENA, MINNESOTA**

FIDUCIARY FUNDS

AGENCY FUNDS

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

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

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**WADENA COUNTY
WADENA, MINNESOTA**

Statement B-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>GOVERNMENTAL (80)</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>5,140</u>	\$ <u>86,303</u>	\$ <u>67,869</u>	\$ <u>23,574</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>5,140</u>	\$ <u>86,303</u>	\$ <u>67,869</u>	\$ <u>23,574</u>
 <u>TAXES AND PENALTIES (82)</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>99,883</u>	\$ <u>5,398,493</u>	\$ <u>5,370,286</u>	\$ <u>128,090</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>99,883</u>	\$ <u>5,398,493</u>	\$ <u>5,370,286</u>	\$ <u>128,090</u>
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>105,023</u>	\$ <u>5,484,796</u>	\$ <u>5,438,155</u>	\$ <u>151,664</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>105,023</u>	\$ <u>5,484,796</u>	\$ <u>5,438,155</u>	\$ <u>151,664</u>

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OTHER SCHEDULES

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**WADENA COUNTY
WADENA, MINNESOTA**

Schedule 7

**SCHEDULE OF DEPOSITS AND INVESTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Number</u>	<u>Interest Rate (%)</u>	<u>Maturity Dates</u>	<u>Fair Value</u>
Cash and Pooled Investments				
Cash on hand and departmental checking	N/A	N/A	Continuous	\$ 3,190
Checking accounts - interest-bearing	Two	0.65 to 2.25	Continuous	763,626
Money market savings	Six	1.50 to 3.77	Continuous	2,131,482
Certificates of deposit	Six	4.95 to 5.25	February 17, 2008 to June 27, 2008	<u>1,450,000</u>
Total Deposits and Investments				<u>\$ 4,348,298</u>

**WADENA COUNTY
WADENA, MINNESOTA**

Schedule 8

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Shared Revenue

State

Highway users tax	\$ 1,970,842
County program aid	865,522
PERA rate reimbursement	20,825
Disparity reduction aid	53,229
Police aid	41,519
Enhanced 911	87,364
Market value credit	833,869
Mobile home market value credit	2,531

Total Shared Revenue	\$ 3,875,701
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Reimbursement for Services

Minnesota Department of Human Services	\$ 1,433,189
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Payments

Local

Payments in lieu of taxes	\$ 37,832
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Grants

State

Minnesota Department/Board of	
Public Safety	\$ 7,516
Corrections	3,409
Transportation	196,177
Health	171,190
Natural Resources	33,402
Human Services	966,036
Water and Soil Resources	76,586
Pollution Control Agency	52,039
Peace Officer Standards and Training Board	2,411
Other	259

Total State	\$ 1,509,025
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Federal

Department/Agency	
Agriculture	\$ 66,348
Transportation	1,231,467
Environmental Protection	5,000
Health and Human Services	774,368
Homeland Security	7,447

Total Federal	\$ 2,084,630
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Total State and Federal Grants	\$ 3,593,655
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Total Intergovernmental Revenue	\$ 8,940,377
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**WADENA COUNTY
WADENA, MINNESOTA**

Schedule 8
(Continued)

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Revenues on this schedule differ from expenditures on the Schedule of Expenditures of Federal Awards (Schedule 10) due to timing differences in revenue recognition under the modified accrual basis of accounting. The individual grants affected are:

Total Federal Revenue per Schedule of Intergovernmental Revenue (Schedule 8)	\$ 2,084,630
WIC	(5,856)
Highway Planning and Construction	21,021
Public Transportation for Nonurbanized Areas	25,227
State Indoor Radon Grant	996
Title III-B Assessment/Screening	(442)
Temporary Assistance for Needy Families (TANF)	14,987
Foster Care Title IV-E	(61)
Prevention/Treatment of Substance Abuse	(1,261)
HMEP Grant	2,449
Bioterrorism Preparedness	<u>7,139</u>
 Total Federal Awards per Schedule of Expenditures of Federal Awards (Schedule 10)	 <u><u>\$ 2,148,829</u></u>

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**WADENA COUNTY
WADENA, MINNESOTA**

Schedule 9

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Wadena County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Wadena County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." One of the significant deficiencies is a material weakness.
- C. No instances of noncompliance material to the financial statements of Wadena County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program 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 program 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 program is:
 - Highway Planning and Construction
 - CFDA #20.205
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Wadena County was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

98-1 Departmental Segregation of Duties

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

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

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

Client's Response:

The Wadena County Commissioners have been made aware of the lack of segregation of duties of accounting functions and the need to develop oversight procedures where possible.

06-1 Preparation of Financial Statements

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

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

We recommend Wadena County obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP. If Wadena County still intends to have staff from the Office of the State Auditor assist in preparation then, at a minimum, it must identify and train individuals to obtain the expertise that can sufficiently review, understand, and approve the County's financial statements, including notes. As an alternative, the County could consider hiring an outside consultant to assist in preparing its basic financial statements.

Client's Response:

Wadena County will continue to provide training to its financial employees in order that they have the expertise to internally prepare its annual financial statements in accordance with GAAP. At a minimum, employees will be trained so they can sufficiently review, understand, and approve the County's financial statements, including notes. Wadena County has previously hired an outside consultant to provide training and assist in the preparation of the County's basic financial statements and will consider retaining that consultant in the future, if needed.

06-2 Audit Adjustments

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the financial statements on a timely basis. Statement on Auditing Standards No. 112 states that one control deficiency that shall be regarded as at least a significant deficiency is identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls, even if management subsequently corrects the misstatement.

During our audit, we identified material adjustments in the Road and Bridge Special Revenue Fund. Receivables and revenues were increased by \$1,444,810 to properly reflect Road and Bridge projects activity. At the fund level, the additional revenue was offset by deferred revenue of \$1,309,581 for receivables not available during the revenue recognition period. Contracts payable for construction expenses were increased by \$205,384. Payables and expenses were reduced by \$105,614 for the purchase of a motor grader not received until 2008. Adjustments were made to the Transit Special Revenue Fund to reduce the County's payables and expenses for the purchase of a \$54,382 bus not received until 2008, and to reduce receivables in the amount of \$43,506 for the federally funded portion of the bus. A net adjustment of \$1,268,349 was made to the governmental activities to reduce depreciable capital assets resulting from two errors noted in the Capital Asset Report.

Proposed audit adjustments are reviewed and approved by the appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the County's internal control.

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

Client's Response:

Wadena County will establish review procedures to ensure all postings to the general ledger and supporting schedules are accurate and complete and done in a timely manner.

ITEM ARISING THIS YEAR

07-1 Health Reimbursement Employee Benefit Trust Fund

In 2004, Wadena County established the Health Reimbursement Employee Benefit Trust Fund to account for resources held in trust for the health reimbursement accounts provided to employees of the County. The County maintains a spreadsheet detailing the employer contributions and expenditures for each participating employee and advances made by the County to the fund.

At December 31, 2007, the balances by employee plus the advances included on the County spreadsheet could not be reconciled to the cash balance in the Health Reimbursement Employee Benefit Trust Fund. The spreadsheet balance of \$170,608 exceeded the cash balance of \$164,052 by \$6,556.

The County's detailed record of the individual health reimbursement accounts, plus any advances, should reconcile to the cash balance of the fund at any point in time. To ensure proper recording to the individual health reimbursement accounts, reconciliations and any necessary adjustments should be done timely.

We recommend the County determine the cause of difference and make the necessary adjustments. We further recommend the County reconcile the individual health reimbursement accounts plus advances to the cash balance at least monthly, ensuring timely corrections of differences.

Client's Response:

Wadena County will determine the cause of the difference and make the necessary adjustments. Wadena County will also reconcile the individual health reimbursement accounts plus advances to the cash balance monthly, ensuring timely corrections of differences.

PREVIOUSLY REPORTED ITEM RESOLVED

Budget Documentation (06-3)

Although the County Board adopts a formal budget, the documentation in the Board minutes did not match the budget published in the official newspaper of the County or the detail in the County's financial system.

Resolution

For the 2007 budget, the documentation in the Board minutes matched the budget published in the official newspaper of the County and the detail in the County's financial system.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. This standard, similar to what GASB Statement 27 did for government employee pension benefits and plans, provides the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statement, accounting for OPEB is now similar to the accounting used by governments for pension plans.

This year, the legislature enacted a new law, Minn. Stat. § 471.6175, intended to help local governments address their OPEB liability in at least three important ways:

- it allows governments to create both irrevocable and revocable OPEB trusts;
- it authorizes the use of a different list of permissible investments for both irrevocable and revocable OPEB trusts; and
- it also permits governments to invest OPEB trust assets with the State Board of Investment, bank trust departments, and certain insurance companies.

Some of the issues that the Wadena County Board will need to address in order to comply with the statement are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the Wadena County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the Wadena County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the Wadena County Board will have to comply with the new legislation enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard;
- if an OPEB trust will be established, the Wadena County Board will have to decide whether to establish an irrevocable or a revocable trust, and report that trust appropriately in the financial statements; and
- in order to determine annual costs and liabilities that need to be recognized, the Wadena County Board will have to decide whether to hire an actuary.

GASB Statement 45 would be applicable to Wadena County for the year ended December 31, 2008.

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

Board of County Commissioners
Wadena County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wadena County as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 12, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 98-1, 06-1, 06-2, and 07-1 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Wadena County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 06-2 to be 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.

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

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 12, 2008

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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 its major federal program for the year ended December 31, 2007. Wadena County's major federal program is 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 its major federal program 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 its major federal program for the year ended December 31, 2007.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Wadena County's internal control.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wadena County as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 12, 2008. Our audit was performed for the purpose of forming opinions on 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 others within the County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

November 12, 2008

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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**WADENA COUNTY
WADENA, MINNESOTA**

Schedule 10

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health and Morrison-Todd-Wadena Community Health Services Board Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 60,492
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 1,149,244
Formula Grants for Other Than Urbanized Areas	20.509	125,403
State and Community Highway Safety	20.600	2,224
Hazardous Materials Emergency Preparedness Training and Planning Grants	20.703	3,293
Total U.S. Department of Transportation		\$ 1,280,164
U.S. Environmental Protection Agency		
Passed Through Minnesota Department of Health and Morrison-Todd-Wadena Community Health Services Board State Indoor Radon Grants	66.032	\$ 5,996
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Health and Morrison-Todd-Wadena Community Health Services Board Temporary Assistance for Needy Families (TANF) - Home Visiting	93.558	\$ 25,787
Passed Through Minnesota Department of Human Services Temporary Assistance for Needy Families (TANF)	93.558	183,450
Total CFDA No. 93.558		\$ 209,237
Passed Through Minnesota Department of Health and Morrison-Todd-Wadena Community Health Services Board Title III-B Assessment/Screening	93.044	5,865
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	12,125
Child Care Mandatory and Matching Funds	93.596	116,990
Foster Care Title IV-E	93.658	106,727
Social Services Block Grant Title XX	93.667	123,645
Chafee Foster Care Independent Living	93.674	1,313
Community Mental Health Services Block Grant	93.958	2,186
Block Grants for Prevention and Treatment of Substance Abuse	93.959	150,664
Passed Through Community Health Information Collaborative of Duluth Immunization Grants	93.268	6,017

**WADENA COUNTY
WADENA, MINNESOTA**

**Schedule 10
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services (Continued)		
Passed Through Minnesota Department of Health and Morrison-Todd-Wadena Community Health Services Board Center for Disease Control and Prevention - Investigations and Technical Assistance	93.283	37,613
Maternal and Child Health Services Block Grant	93.994	22,348
Total U.S. Department of Health and Human Services		\$ 794,730
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety Homeland Security Grant Program	97.067	\$ 7,447
Total Federal Awards		\$ 2,148,829

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 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 2007, the County did not pass any federal money to subrecipients.