

# STATE OF MINNESOTA

## Office of the State Auditor



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

---

**WATONWAN COUNTY**  
**ST. JAMES, MINNESOTA**

**YEAR ENDED DECEMBER 31, 2008**

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

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

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

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

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

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

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

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

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

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

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

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: [www.auditor.state.mn.us](http://www.auditor.state.mn.us).

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**Year Ended December 31, 2008**



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

This page was left blank intentionally.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**TABLE OF CONTENTS**

	<u>Reference</u>	<u>Page</u>
<b>Introductory Section</b>		
Organization		1
<b>Financial Section</b>		
Independent Auditor's Report		2
Management's Discussion and Analysis		4
Basic Financial Statements		
County-Wide Financial Statements		
Statement of Net Assets	Exhibit 1	12
Statement of Activities	Exhibit 2	13
Fund Financial Statements		
Governmental Funds		
Balance Sheet	Exhibit 3	14
Reconciliation of the Fund Balances of Governmental Funds to the Statement of Net Assets	Exhibit 3A	18
Statement of Revenues, Expenditures, and Changes in Fund Balances	Exhibit 4	19
Reconciliation of the Changes in Fund Balances of Governmental Funds to the Change in Net Assets of Governmental Activities	Exhibit 4A	23
Budgetary Comparison Statements		
General Fund	Exhibit 5	24
Road and Bridge Special Revenue Fund	Exhibit 6	27
Human Services Special Revenue Fund	Exhibit 7	28
County Ditch Special Revenue Fund	Exhibit 8	29
Statement of Fiduciary Net Assets - Agency Funds	Exhibit 9	30
Notes to the Financial Statements		31

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

TABLE OF CONTENTS

	Reference	Page
<b>Financial Section (Continued)</b>		
Required Supplementary Information		
Schedule of Funding Progress - Other Postemployment Benefits	Schedule 1	61
Combining and Individual Fund Financial Statements and Schedules		
Budgetary Comparison Schedule - Debt Service Fund	Statement 1	62
Other Governmental Funds		63
Nonmajor Governmental Funds		
Combining Balance Sheet	Statement 2	64
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	Statement 3	65
Budgetary Comparison Schedules		
County Library Special Revenue Fund	Statement 4	66
Solid Waste Special Revenue Fund	Statement 5	67
Agency Funds		68
Combining Statement of Changes in Assets and Liabilities - All Agency Funds	Statement 6	69
Schedule of Intergovernmental Revenue	Schedule 2	71
<b>Management and Compliance Section</b>		
Schedule of Findings and Questioned Costs	Schedule 3	73
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		76
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133		79
Schedule of Expenditures of Federal Awards	Schedule 4	82



This page was left blank intentionally.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

ORGANIZATION  
2008

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
<b>Commissioners</b>		
1st District	Dwayne Krenz*	January 2013
2nd District	Mark Rentz	January 2011
3rd District	William Berg	January 2013
4th District	Scott Sanders	January 2011
5th District	John Baerg	January 2013
<b>Officers</b>		
<b>Elected</b>		
Attorney	LaMar Piper	January 2011
Auditor	Donald Kuhlman	January 2011
County Recorder	Joy Sing	January 2011
Sheriff	Gary Menssen	January 2011
Treasurer	Carol F. Johnson	January 2011
<b>Appointed</b>		
Assessor	Noreen Curry	January 2009
Court Administrator (State)	Kelly Iverson	Indefinite
Coroner	R. A. Parsons, M.D.	January 2011
Highway Engineer	Roger Risser	May 2011
Probation Officer	Paul Harris	Indefinite
Veterans Service Officer	Deb Grote	Indefinite
Human Services Director	Richard Collins	Indefinite

\*2008 Chair

This page was left blank intentionally.



This page was left blank intentionally.



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

## INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Watonwan County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Watonwan County, Minnesota, as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information for Watonwan County as of December 31, 2008, and the respective changes in financial position thereof and the respective budgetary comparisons for the General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, and County Ditch Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1.D.7., Watonwan County has implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

The Management's Discussion and Analysis and the Schedule of Funding Progress - Other Postemployment Benefits are not required parts 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 Watonwan County's basic financial statements. The combining and individual fund financial statements and 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 of Watonwan County. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented 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 30, 2009, on our consideration of Watonwan County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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 30, 2009

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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

This page was left blank intentionally.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2008  
(Unaudited)**

**INTRODUCTION**

As management of Watonwan County, we offer readers of the Watonwan County financial statements this narrative overview and analysis of the financial activities of Watonwan County for the fiscal year ended December 31, 2008. 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 Watonwan County exceeded its liabilities at the close of 2008 by \$45,475,607. Of this amount, \$6,910,735 (unrestricted net assets) may be used to meet Watonwan County's ongoing obligations to citizens and creditors.
- Watonwan County's total net assets increased by \$1,358,215 in 2008.
- At the close of 2008, Watonwan County's governmental funds reported combined ending fund balances of \$8,538,847, \$7,458,202 unreserved, of which approximately \$2,728,823 is available for spending at the County's discretion and is noted as unreserved, undesignated fund balance.
- At the close of 2008, unreserved fund balance for the General Fund was \$3,683,928, or 67.3 percent, of total General Fund expenditures.
- Watonwan County's total bonds and capital notes payable decreased by \$150,000. There were payments of \$30,000 and \$120,000 on the G.O. Capital Improvement Bonds and the G.O. Capital Improvement Refunding Bonds, respectively.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This Management's Discussion and Analysis is intended to serve as an introduction to Watonwan County's basic financial statements. Watonwan County's basic financial statements comprise three components: (1) county-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

## **County-Wide Financial Statements**

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

The statement of net assets presents information on all of Watonwan 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 Watonwan 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 only in future fiscal periods (for example, uncollected taxes and earned but unused vacation leave).

The county-wide financial statements list the functions of Watonwan County principally supported by taxes and intergovernmental revenues. The governmental activities of Watonwan County include general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, economic development, and conservation of natural resources. Watonwan County has no business-type activities intended to recover all or a significant portion of their costs through user fees and charges.

The county-wide financial statements can be found on Exhibits 1 and 2.

## **Fund 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. Watonwan County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Watonwan County can be divided into two categories: governmental funds and fiduciary funds.

Because the focus of governmental funds is narrower than that of the county-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the county-wide financial statements. By doing so, readers may better understand the long-term impact of the County'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.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the county-wide financial statements. However, unlike the county-wide financial statements, county fund level financial statements focus on short-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 the County's short-term financing requirements.

Watowan County reports five major funds and two nonmajor funds. The major funds are the General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, County Ditch Special Revenue Fund, and Debt Service Fund. The nonmajor funds are the County Library Special Revenue Fund and Solid Waste Special Revenue Fund. Information is presented separately for the major funds and in total for the nonmajor funds in Exhibits 3 and 4.

Fiduciary funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments, or other funds. Watowan County's fiduciary funds consist of three agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In addition, the agency funds are not reflected in the county-wide financial statements because those resources are not available to support the County's programs.

Watowan County's governmental fund financial statements are on Exhibits 3 to 8, and Watowan County's fiduciary funds are on Exhibit 9.

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

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, this report also presents certain required supplementary information concerning Watowan County's progress in funding its obligation to provide other postemployment benefits to its employees. In addition, the County also provides supplementary information on intergovernmental revenue (Schedule 2).

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

## County-Wide Financial Analysis

Over time, net assets serve as a useful indicator of the County's financial position. Watonwan County's assets exceeded liabilities by \$45,475,607 at the close of 2008. The largest portion of Watonwan County's net assets (80.3 percent) reflects its investment in capital assets (for example, land, buildings, and equipment), less any related debt used to acquire those assets that is still outstanding. However, it should be noted that these assets are not available for future spending.

### Governmental Net Assets

	<u>2008</u>	<u>2007</u>
Current and other assets	\$ 11,576,885	\$ 10,774,963
Capital assets	<u>39,259,588</u>	<u>38,764,520</u>
Total Assets	<u>\$ 50,836,473</u>	<u>\$ 49,539,483</u>
Long-term liabilities outstanding	\$ 4,624,143	\$ 4,747,653
Other liabilities	<u>736,723</u>	<u>674,438</u>
Total Liabilities	<u>\$ 5,360,866</u>	<u>\$ 5,422,091</u>
Net Assets		
Invested in capital assets - net of related debt	\$ 36,515,516	\$ 35,873,342
Restricted	2,049,356	1,655,707
Unrestricted	<u>6,910,735</u>	<u>6,588,343</u>
Total Net Assets	<u>\$ 45,475,607</u>	<u>\$ 44,117,392</u>

The unrestricted net asset amount of \$6,910,735 as of December 31, 2008, may be used to meet the County's ongoing obligations to citizens and creditors.

## Governmental Activities

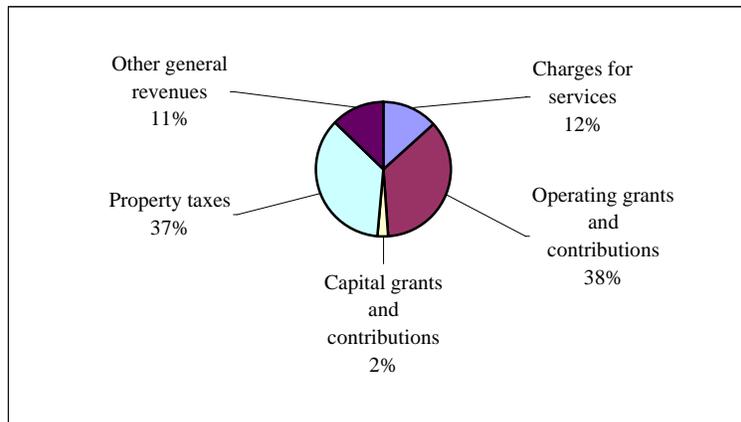
The following table summarizes the changes in net assets for 2008.

### Changes in Governmental Net Assets

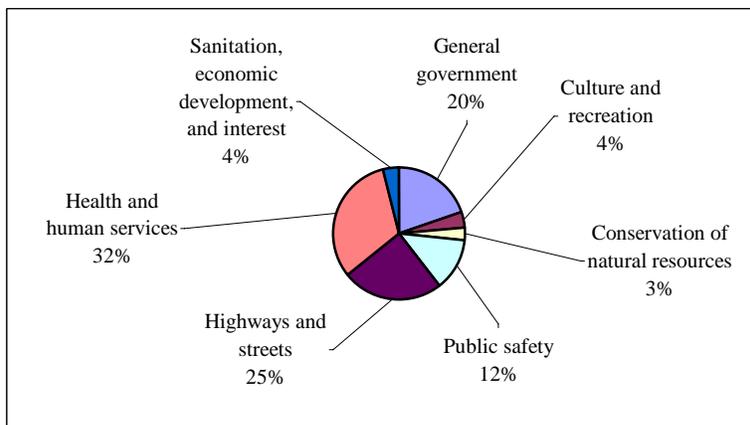
	<u>2008</u>	<u>2007</u>
Revenues		
Program revenues		
Charges for services	\$ 1,898,644	\$ 2,104,851
Operating grants and contributions	6,249,283	5,620,210
Capital grants and contributions	296,041	392,945
General revenues		
Property taxes	6,073,979	5,675,037
Other	<u>1,749,670</u>	<u>2,043,402</u>
Total Revenues	<u>\$ 16,267,617</u>	<u>\$ 15,836,445</u>

	2008	2007
Expenses		
General government	\$ 2,941,186	\$ 2,822,941
Public safety	1,845,580	1,837,481
Highways and streets	3,799,652	3,568,260
Sanitation	246,752	241,552
Human services	4,251,722	4,145,986
Health	473,019	458,293
Culture and recreation	596,452	579,147
Conservation of natural resources	475,277	419,358
Economic development	145,259	142,098
Interest	134,503	163,253
<b>Total Expenses</b>	<b>\$ 14,909,402</b>	<b>\$ 14,378,369</b>
Increase in Net Assets	\$ 1,358,215	\$ 1,458,076
Net Assets - January 1	44,117,392	42,659,316
Net Assets - December 31	<b>\$ 45,475,607</b>	<b>\$ 44,117,392</b>

### Sources of County Revenues



### Where County Funds Are Spent



(Unaudited)

## **FINANCIAL ANALYSIS OF THE COUNTY'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 \$8,538,847. The majority of this amount (\$7,458,202) constitutes unreserved fund balance. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for various reasons.

The General Fund is the chief operating fund of Watonwan County. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$3,683,928, while the total fund balance was \$4,404,027. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance and total fund balance to annual expenditures. Unreserved fund balance represents 67.3 percent of total General Fund expenditures for 2008, while total fund balance represents 80.5 percent of total General Fund expenditures. In 2008, the total fund balance in the General Fund increased by \$131,546, with unreserved fund balances decreasing by \$46,844 and reserved fund balances increasing by \$178,390. The primary reasons for the decrease in unreserved fund balance were the increase in general government and debt expenditures. The primary reasons for the increase in reserved fund balance were E911 grant monies held over, advances to other funds, and unspent water plan funds.

The Road and Bridge Special Revenue Fund's fund balance increased by \$225,745 in 2008. The main reasons for the increase were due to a slight decrease in construction and maintenance activities and relatively stable revenues.

In 2008, the Human Services Special Revenue Fund's fund balance increased by \$294,817.

### **General Fund Budgetary Highlights**

The largest revenue variances were in miscellaneous revenue, which was due to a dividend from workers' compensation and property/casualty insurance, and cost allocation funds from administering DHS programs; and collection of special assessments for repayment of septic loans which were unbudgeted. On the expenditure side, actual expenditures were only \$52,712 more than budgeted. Significant variances over budget were septic loan payments (\$120,182) and motor pool expenses (\$52,259) which were unbudgeted. Significant positive variances on the expenditure side included the Sheriff's Department (\$67,581), Court Services (\$36,108), and Central Services (\$86,279).

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2008, amounts to \$39,259,588 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The total increase in the County's investment in capital assets for the current fiscal year was virtually unchanged.

	<b>Governmental Capital Assets (Net of Depreciation)</b>	
	<u>2008</u>	<u>2007</u>
Land	\$ 695,771	\$ 695,771
Construction in progress	26,073	334,240
Land improvements	31,952	34,408
Buildings and improvements	5,627,527	5,781,687
Machinery, furniture, and equipment	1,717,189	1,820,515
Infrastructure	<u>31,161,076</u>	<u>30,097,899</u>
Total	<u>\$ 39,259,588</u>	<u>\$ 38,764,520</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, the County had total bonded debt and capital notes outstanding of \$2,743,972, which is backed by the full faith and credit of the government. Watonwan County's bonds are not rated.

	<b>Governmental Outstanding Debt</b>	
	<u>2008</u>	<u>2007</u>
General obligation bonds and capital notes	<u>\$ 2,743,972</u>	<u>\$ 2,891,178</u>

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

Minnesota statutes limit the amount of debt that a county may levy to three percent of its total market value. As of the end of 2008, Watonwan County is well below the three percent debt limit imposed by state statutes.

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

- Watonwan County's unemployment rate was 7.6 percent as of the end of 2008. This is slightly higher than the state-wide rate of 6.8 percent.
- Farm land values continued to increase in 2008, reflecting the profitability in crop farming at this time. Home values declined but not to the extent other areas of the country's residential values have decreased.

At the end of 2008, Watonwan County set its 2009 revenue and expenditure budgets; 2009 budgeted revenues and expenditures of \$16,799,806 and \$16,606,064, respectively.

### **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 information provided in this report, or requests for additional financial information, should be addressed to the Watonwan County Auditor, Watonwan County Courthouse, 710 Second Avenue South, P. O. Box 518, St. James, Minnesota 56081.

## **BASIC FINANCIAL STATEMENTS**

This page was left blank intentionally.

**COUNTY-WIDE FINANCIAL STATEMENTS**

This page was left blank intentionally.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET ASSETS  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2008**

**Assets**

Cash and pooled investments	\$ 8,313,733
Taxes receivable	
Prior - net	144,289
Special assessments receivable	
Prior - net	24,195
Noncurrent	591,023
Accounts receivable	244,758
Accrued interest receivable	24,447
Due from other governments	1,996,395
Inventories	207,814
Deferred debt issuance costs	30,231
Capital assets	
Non-depreciable	721,844
Depreciable - net of accumulated depreciation	38,537,744
	<b>\$ 50,836,473</b>

**Liabilities**

Accounts payable	\$ 222,470
Salaries payable	254,556
Contracts payable	9,630
Due to other governments	122,058
Accrued interest payable	46,905
Unearned revenue	81,104
Long-term liabilities	
Due within one year	811,148
Due in more than one year	3,812,995
	<b>\$ 5,360,866</b>

**Net Assets**

Invested in capital assets - net of related debt	\$ 36,515,616
Restricted for	
General government	76,482
Public safety	203,347
Highways and streets	1,229,909
Culture and recreation	152,732
Conservation of natural resources	102,006
Economic development	24,563
Debt service	260,217
Unrestricted	6,910,735
	<b>\$ 45,475,607</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**EXHIBIT 2**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<b>Program Revenues</b>				<b>Net (Expense) Revenue and Change in Net Assets</b>
	<b>Expenses</b>	<b>Fees, Charges, Fines, and Other</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	
<b><u>Functions/Programs</u></b>					
<b>Primary government</b>					
<b>Governmental activities</b>					
General government	\$ 2,941,186	\$ 469,219	\$ 278,392	\$ 42,043	\$ (2,151,532)
Public safety	1,845,580	216,162	160,939	-	(1,468,479)
Highways and streets	3,799,652	204,914	3,169,469	245,098	(180,171)
Sanitation	246,752	188,672	-	-	(58,080)
Human services	4,251,722	456,926	2,261,705	-	(1,533,091)
Health	473,019	52,998	215,623	-	(204,398)
Culture and recreation	596,452	20,323	-	8,900	(567,229)
Conservation of natural resources	475,277	196,877	163,155	-	(115,245)
Economic development	145,259	92,553	-	-	(52,706)
Interest	134,503	-	-	-	(134,503)
<b>Total Governmental Activities</b>	<b><u>\$ 14,909,402</u></b>	<b><u>\$ 1,898,644</u></b>	<b><u>\$ 6,249,283</u></b>	<b><u>\$ 296,041</u></b>	<b><u>\$ (6,465,434)</u></b>
<b>General Revenues</b>					
Property taxes				\$ 6,073,979	
Mortgage registry and deed tax				7,818	
Payments in lieu of tax				7,045	
Grants and contributions not restricted to specific programs				1,471,018	
Unrestricted investment earnings				176,292	
Miscellaneous				87,497	
<b>Total general revenues</b>				<b><u>\$ 7,823,649</u></b>	
<b>Change in net assets</b>				<b>\$ 1,358,215</b>	
<b>Net Assets - January 1</b>				<b><u>44,117,392</u></b>	
<b>Net Assets - December 31</b>				<b><u>\$ 45,475,607</u></b>	

**FUND FINANCIAL STATEMENTS**

This page was left blank intentionally.

**GOVERNMENTAL FUNDS**

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2008**

	<b>General</b>	<b>Road and Bridge</b>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 4,513,386	\$ 769,303
Taxes receivable		
Prior	73,312	18,457
Special assessments		
Prior	8,240	-
Noncurrent	566,209	5,203
Accounts receivable	15,442	7,583
Accrued interest receivable	23,451	-
Due from other funds	41,788	-
Due from other governments	16,895	1,441,520
Inventories	-	207,814
Advances to other funds	60,000	-
	<b>\$ 5,318,723</b>	<b>\$ 2,449,880</b>
<b>Total Assets</b>	<b>\$ 5,318,723</b>	<b>\$ 2,449,880</b>

**EXHIBIT 3**

<u>Human Services</u>	<u>County Ditch</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 1,605,388	\$ 248,211	\$ 258,412	\$ 919,033	\$ 8,313,733
36,805	-	5,543	10,172	144,289
-	135	-	15,820	24,195
-	19,611	-	-	591,023
219,368	2,365	-	-	244,758
-	-	-	996	24,447
-	-	-	-	41,788
338,480	-	199,500	-	1,996,395
-	-	-	-	207,814
-	-	-	-	60,000
<u>\$ 2,200,041</u>	<u>\$ 270,322</u>	<u>\$ 463,455</u>	<u>\$ 946,021</u>	<u>\$ 11,648,442</u>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2008**

	<b>General</b>	<b>Road and Bridge</b>
<b><u>Liabilities and Fund Balances</u></b>		
<b>Liabilities</b>		
Accounts payable	\$ 40,109	\$ 36,271
Salaries payable	114,135	36,825
Contracts payable	-	9,630
Due to other funds	-	-
Due to other governments	44,415	-
Deferred revenue - unavailable	634,933	1,247,424
Deferred revenue - unearned	81,104	-
Advances from other funds	-	-
	<b>\$ 914,696</b>	<b>\$ 1,330,150</b>
<b>Fund Balances</b>		
Reserved for		
Inventories	\$ -	\$ 207,814
Advances to other funds	60,000	-
Law library	45,400	-
Recorder's equipment	13,366	-
E-911	192,706	-
Sheriff's contingency	10,641	-
Future projects	17,716	-
Donations	-	-
ISTS loans	299,020	-
Water plan	56,687	-
HRA special benefits levy	24,563	-
Unreserved		
Designated for cash flows	1,981,199	474,610
Designated for compensated absences	437,717	217,608
Designated for debt service	-	-
Undesignated	1,265,012	219,698
Unreserved, reported in nonmajor Special revenue funds	-	-
	<b>\$ 4,404,027</b>	<b>\$ 1,119,730</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 5,318,723</b>	<b>\$ 2,449,880</b>

**EXHIBIT 3**  
**(Continued)**

<u>Human Services</u>	<u>County Ditch</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 117,449	\$ 6,782	\$ -	\$ 21,859	\$ 222,470
86,880	-	-	16,716	254,556
-	-	-	-	9,630
41,788	-	-	-	41,788
77,643	-	-	-	122,058
192,700	19,641	203,238	20,053	2,317,989
-	-	-	-	81,104
-	60,000	-	-	60,000
<u>\$ 516,460</u>	<u>\$ 86,423</u>	<u>\$ 203,238</u>	<u>\$ 58,628</u>	<u>\$ 3,109,595</u>
\$ -	\$ -	\$ -	\$ -	\$ 207,814
-	-	-	-	60,000
-	-	-	-	45,400
-	-	-	-	13,366
-	-	-	-	192,706
-	-	-	-	10,641
-	-	-	-	17,716
-	-	-	152,732	152,732
-	-	-	-	299,020
-	-	-	-	56,687
-	-	-	-	24,563
1,060,376	-	-	-	3,516,185
297,652	-	-	-	952,977
-	-	260,217	-	260,217
325,553	183,899	-	-	1,994,162
-	-	-	734,661	734,661
<u>\$ 1,683,581</u>	<u>\$ 183,899</u>	<u>\$ 260,217</u>	<u>\$ 887,393</u>	<u>\$ 8,538,847</u>
<u>\$ 2,200,041</u>	<u>\$ 270,322</u>	<u>\$ 463,455</u>	<u>\$ 946,021</u>	<u>\$ 11,648,442</u>

This page was left blank intentionally.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**EXHIBIT 3A**

**RECONCILIATION OF THE FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
DECEMBER 31, 2008**

<b>Fund balances - total governmental funds (Exhibit 3)</b>		<b>\$ 8,538,847</b>
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		39,259,588
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		2,317,989
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (2,780,000)	
Accrued interest payable	(46,905)	
Deferred debt issuance charges	30,231	
Discount on bonds	36,028	
Loans payable	(828,150)	
Net OPEB liability	(42,535)	
Compensated absences	(1,009,486)	(4,640,817)
<b>Net Assets of Governmental Activities (Exhibit 1)</b>		<b><u>\$ 45,475,607</u></b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<b>General</b>	<b>Road and Bridge</b>
<b>Revenues</b>		
Taxes	\$ 3,024,590	\$ 809,048
Special assessments	126,310	6,285
Licenses and permits	19,671	-
Intergovernmental	1,342,516	3,282,348
Charges for services	760,279	269,488
Fines and forfeits	1,173	-
Gifts and contributions	1,200	-
Investment earnings	183,597	-
Miscellaneous	261,843	179,821
	<b>\$ 5,721,179</b>	<b>\$ 4,546,990</b>
<b>Expenditures</b>		
<b>Current</b>		
General government	\$ 2,857,175	\$ -
Public safety	1,806,707	-
Highways and streets	-	4,473,093
Sanitation	-	-
Human services	-	-
Health	-	-
Culture and recreation	49,127	-
Conservation of natural resources	426,497	-
Economic development	144,430	-
<b>Capital outlay</b>	66,689	-
<b>Debt service</b>		
Principal	103,306	-
Interest	16,876	-
Administrative charges	-	-
	<b>\$ 5,470,807</b>	<b>\$ 4,473,093</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 250,372</b>	<b>\$ 73,897</b>

**EXHIBIT 4**

<u>Human Services</u>	<u>County Ditch</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 1,592,139	\$ -	\$ 223,330	\$ 423,520	\$ 6,072,627
-	76,697	-	175,631	384,923
-	-	-	-	19,671
2,929,634	-	42,676	164,771	7,761,945
235,874	-	-	4,030	1,269,671
-	-	-	9,479	10,652
-	-	-	8,900	10,100
-	-	-	6,200	189,797
331,457	2,365	-	10,891	786,377
<b>\$ 5,089,104</b>	<b>\$ 79,062</b>	<b>\$ 266,006</b>	<b>\$ 803,422</b>	<b>\$ 16,505,763</b>
\$ -	\$ -	\$ -	\$ -	\$ 2,857,175
-	-	-	-	1,806,707
-	-	-	-	4,473,093
-	-	-	259,017	259,017
4,251,935	-	-	-	4,251,935
472,833	-	-	-	472,833
-	-	-	553,928	603,055
-	119,461	-	-	545,958
-	-	-	-	144,430
-	-	-	-	66,689
-	-	150,000	-	253,306
-	566	113,205	-	130,647
-	-	806	-	806
<b>\$ 4,724,768</b>	<b>\$ 120,027</b>	<b>\$ 264,011</b>	<b>\$ 812,945</b>	<b>\$ 15,865,651</b>
<b>\$ 364,336</b>	<b>\$ (40,965)</b>	<b>\$ 1,995</b>	<b>\$ (9,523)</b>	<b>\$ 640,112</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>General</u>	<u>Road and Bridge</u>
<b>Other Financing Sources (Uses)</b>		
Transfers in	\$ 69,519	\$ 159,700
Transfers out	(171,851)	-
Proceeds from loan	30	-
	<u>30</u>	<u>-</u>
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (102,302)</b>	<b>\$ 159,700</b>
<b>Net Change in Fund Balances</b>	<b>\$ 148,070</b>	<b>\$ 233,597</b>
Fund Balances - January 1, as previously reported	\$ 4,272,481	\$ 893,985
Restatement (Note 1.E.)	(16,524)	-
	<u>4,255,957</u>	<u>893,985</u>
<b>Fund Balances - January 1, as restated</b>	<b>\$ 4,255,957</b>	<b>\$ 893,985</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>\$ -</b>	<b>\$ (7,852)</b>
<b>Fund Balances - December 31</b>	<b>\$ 4,404,027</b>	<b>\$ 1,119,730</b>

**EXHIBIT 4**  
**(Continued)**

<u>Human Services</u>	<u>County Ditch</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ 7,277	\$ -	\$ 4,874	\$ 241,370
(69,519)	-	-	-	(241,370)
-	-	-	-	30
<u>\$ (69,519)</u>	<u>\$ 7,277</u>	<u>\$ -</u>	<u>\$ 4,874</u>	<u>\$ 30</u>
<u>\$ 294,817</u>	<u>\$ (33,688)</u>	<u>\$ 1,995</u>	<u>\$ (4,649)</u>	<u>\$ 640,142</u>
\$ 1,388,764	\$ 217,587	\$ 258,222	\$ 894,194	\$ 7,925,233
-	-	-	(2,152)	(18,676)
<u>\$ 1,388,764</u>	<u>\$ 217,587</u>	<u>\$ 258,222</u>	<u>\$ 892,042</u>	<u>\$ 7,906,557</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (7,852)</u>
<u><u>\$ 1,683,581</u></u>	<u><u>\$ 183,899</u></u>	<u><u>\$ 260,217</u></u>	<u><u>\$ 887,393</u></u>	<u><u>\$ 8,538,847</u></u>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT 4A*

**RECONCILIATION OF THE CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**Net change in fund balances - total governmental funds (Exhibit 4) \$ 640,142**

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

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.

Capital outlay expenditures	\$ 1,911,252	
Net book value of asset disposals	(21,355)	
Depreciation expense	<u>(1,394,829)</u>	495,068

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Decrease in deferred revenue for taxes and special assessments	\$ (79,027)	
Increase in deferred revenue for grants and allotments	<u>186,630</u>	107,603

Issuing long-term debt (such as bonds or loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the net effect of issuance costs and discounts when debt is issued; these amounts are deferred and amortized over the life of the debt in the statement of activities.

Proceeds of loans issued	\$ (30)	
Repayment of debt principal	253,306	
Amortization of discount on debt and issuance costs	<u>(4,943)</u>	248,333

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 inventories	\$ (7,852)	
Change in accrued interest payable	1,893	
Net OPEB liabilities	(42,535)	
Change in compensated absences	<u>(84,437)</u>	<u>(132,931)</u>

**Change in Net Assets of Governmental Activities (Exhibit 2) \$ 1,358,215**

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT 5*

**BUDGETARY COMPARISON STATEMENT  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 2,984,115	\$ 2,984,115	\$ 3,024,590	\$ 40,475
Special assessments	-	-	126,310	126,310
Licenses and permits	15,695	15,695	19,671	3,976
Intergovernmental	1,420,761	1,420,761	1,342,516	(78,245)
Charges for services	690,131	690,131	760,279	70,148
Fines and forfeits	-	-	1,173	1,173
Gifts and contributions	-	-	1,200	1,200
Investment earnings	170,000	170,000	183,597	13,597
Miscellaneous	90,874	90,874	261,843	170,969
<b>Total Revenues</b>	<b>\$ 5,371,576</b>	<b>\$ 5,371,576</b>	<b>\$ 5,721,179</b>	<b>\$ 349,603</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
County commissioners	\$ 195,460	\$ 195,460	\$ 197,030	\$ (1,570)
Court administrator	20,000	20,000	19,419	581
Law library	14,000	14,000	13,429	571
County auditor	222,399	222,399	218,180	4,219
License center	80,761	80,761	79,970	791
County treasurer	131,698	131,698	126,809	4,889
Personnel	73,360	73,360	72,469	891
Central services	193,055	193,055	106,776	86,279
Elections	25,900	25,900	30,388	(4,488)
Information services	111,926	111,926	89,782	22,144
County attorney	240,975	240,975	231,921	9,054
Attorney's contingent	10,500	10,500	7,304	3,196
Victim witness	44,009	44,009	46,077	(2,068)
County recorder	155,439	155,439	186,541	(31,102)
County assessor	247,203	247,203	249,982	(2,779)
Building maintenance	257,233	257,233	253,875	3,358
Veterans service	92,365	92,365	97,526	(5,161)
Motor pool	-	-	52,259	(52,259)
Public transit	354,409	354,409	337,636	16,773
HUD recapture funds	-	-	8,906	(8,906)
Other general government	389,170	389,170	430,896	(41,726)
<b>Total general government</b>	<b>\$ 2,859,862</b>	<b>\$ 2,859,862</b>	<b>\$ 2,857,175</b>	<b>\$ 2,687</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

***EXHIBIT 5  
(Continued)***

**BUDGETARY COMPARISON STATEMENT  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Public safety</b>				
County sheriff	\$ 1,150,129	\$ 1,150,129	\$ 1,082,548	\$ 67,581
Sheriff's contingent	5,000	5,000	-	5,000
Jail	443,565	443,565	455,377	(11,812)
E-911 and radio maintenance	25,000	25,000	28,236	(3,236)
County coroner	7,800	7,800	2,236	5,564
Court services	240,179	240,179	204,071	36,108
Emergency management	39,274	39,274	34,239	5,035
<b>Total public safety</b>	<b>\$ 1,910,947</b>	<b>\$ 1,910,947</b>	<b>\$ 1,806,707</b>	<b>\$ 104,240</b>
<b>Culture and recreation</b>				
County parks	\$ 20,500	\$ 20,500	\$ 16,127	\$ 4,373
Historical society	33,000	33,000	33,000	-
<b>Total culture and recreation</b>	<b>\$ 53,500</b>	<b>\$ 53,500</b>	<b>\$ 49,127</b>	<b>\$ 4,373</b>
<b>Conservation of natural resources</b>				
Environmental services	\$ 96,751	\$ 96,751	\$ 108,958	\$ (12,207)
County extension	84,867	84,867	87,313	(2,446)
Agricultural society/fair grounds	41,000	41,000	42,710	(1,710)
Soil and water conservation	53,500	53,500	53,500	-
CWP project	58,500	58,500	45,210	13,290
Local water plan block grant	62,500	62,500	88,806	(26,306)
<b>Total conservation of natural resources</b>	<b>\$ 397,118</b>	<b>\$ 397,118</b>	<b>\$ 426,497</b>	<b>\$ (29,379)</b>
<b>Economic development</b>				
Employment and training	\$ 93,668	\$ 93,668	\$ 93,059	\$ 609
Economic development	50,500	50,500	51,371	(871)
<b>Total economic development</b>	<b>\$ 144,168</b>	<b>\$ 144,168</b>	<b>\$ 144,430</b>	<b>\$ (262)</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT 5  
(Continued)*

**BUDGETARY COMPARISON STATEMENT  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures (Continued)</b>				
<b>Capital outlay</b>				
General government	\$ 52,500	\$ 52,500	\$ 66,689	\$ (14,189)
<b>Debt service</b>				
Principal	\$ -	\$ -	\$ 103,306	\$ (103,306)
Interest	\$ -	\$ -	\$ 16,876	\$ (16,876)
<b>Total Expenditures</b>	<b>\$ 5,418,095</b>	<b>\$ 5,418,095</b>	<b>\$ 5,470,807</b>	<b>\$ (52,712)</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ (46,519)</b>	<b>\$ (46,519)</b>	<b>\$ 250,372</b>	<b>\$ 296,891</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 69,519	\$ 69,519	\$ 69,519	\$ -
Transfers out	(160,000)	(160,000)	(171,851)	(11,851)
Proceeds from loans	-	-	30	30
<b>Total Other Financing Sources     (Uses)</b>	<b>\$ (90,481)</b>	<b>\$ (90,481)</b>	<b>\$ (102,302)</b>	<b>\$ (11,821)</b>
<b>Net Change in Fund Balance</b>	<b>\$ (137,000)</b>	<b>\$ (137,000)</b>	<b>\$ 148,070</b>	<b>\$ 285,070</b>
Fund Balance - January 1, as previously reported	\$ 4,272,481	\$ 4,272,481	\$ 4,272,481	\$ -
Restatement (Note 1.E.)	-	-	(16,524)	(16,524)
<b>Fund Balance - January 1, as restated</b>	<b>\$ 4,272,481</b>	<b>\$ 4,272,481</b>	<b>\$ 4,255,957</b>	<b>\$ (16,524)</b>
<b>Fund Balance - December 31</b>	<b>\$ 4,135,481</b>	<b>\$ 4,135,481</b>	<b>\$ 4,404,027</b>	<b>\$ 268,546</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT 6*

**BUDGETARY COMPARISON STATEMENT  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 892,659	\$ 810,702	\$ 809,048	\$ (1,654)
Special assessments	-	-	6,285	6,285
Intergovernmental	2,956,374	3,038,331	3,282,348	244,017
Charges for services	240,000	240,000	269,488	29,488
Miscellaneous	267,500	267,500	179,821	(87,679)
<b>Total Revenues</b>	<b>\$ 4,356,533</b>	<b>\$ 4,356,533</b>	<b>\$ 4,546,990</b>	<b>\$ 190,457</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 418,947	\$ 418,947	\$ 414,362	\$ 4,585
Maintenance	1,056,726	1,056,726	1,155,695	(98,969)
Construction	1,585,090	1,585,090	1,733,542	(148,452)
Equipment maintenance and shop	1,077,570	1,077,570	979,051	98,519
Other	188,200	188,200	190,443	(2,243)
<b>Total Expenditures</b>	<b>\$ 4,326,533</b>	<b>\$ 4,326,533</b>	<b>\$ 4,473,093</b>	<b>\$ (146,560)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 30,000</b>	<b>\$ 30,000</b>	<b>\$ 73,897</b>	<b>\$ 43,897</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	10,000	10,000	159,700	149,700
<b>Net Change in Fund Balance</b>	<b>\$ 40,000</b>	<b>\$ 40,000</b>	<b>\$ 233,597</b>	<b>\$ 193,597</b>
<b>Fund Balance - January 1</b>	<b>893,985</b>	<b>893,985</b>	<b>893,985</b>	<b>-</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>-</b>	<b>(7,852)</b>	<b>(7,852)</b>
<b>Fund Balance - December 31</b>	<b>\$ 933,985</b>	<b>\$ 933,985</b>	<b>\$ 1,119,730</b>	<b>\$ 185,745</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT 7*

**BUDGETARY COMPARISON STATEMENT  
HUMAN SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,491,761	\$ 1,592,931	\$ 1,592,139	\$ (792)
Intergovernmental	2,307,996	2,307,996	2,929,634	621,638
Charges for services	181,150	181,150	235,874	54,724
Miscellaneous	304,700	304,700	331,457	26,757
<b>Total Revenues</b>	<b>\$ 4,285,607</b>	<b>\$ 4,386,777</b>	<b>\$ 5,089,104</b>	<b>\$ 702,327</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
General administration	\$ 597,178	\$ 597,178	\$ 31,893	\$ 565,285
Income maintenance	784,643	784,643	983,188	(198,545)
Social services	2,553,643	2,573,643	3,236,854	(663,211)
<b>Total human services</b>	<b>\$ 3,935,464</b>	<b>\$ 3,955,464</b>	<b>\$ 4,251,935</b>	<b>\$ (296,471)</b>
<b>Health</b>				
Community health services	431,313	431,313	472,833	(41,520)
<b>Total Expenditures</b>	<b>\$ 4,366,777</b>	<b>\$ 4,386,777</b>	<b>\$ 4,724,768</b>	<b>\$ (337,991)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (81,170)</b>	<b>\$ -</b>	<b>\$ 364,336</b>	<b>\$ 364,336</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	-	-	(69,519)	(69,519)
<b>Net Change in Fund Balance</b>	<b>\$ (81,170)</b>	<b>\$ -</b>	<b>\$ 294,817</b>	<b>\$ 294,817</b>
<b>Fund Balance - January 1</b>	<b>1,388,764</b>	<b>1,388,764</b>	<b>1,388,764</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,307,594</b>	<b>\$ 1,388,764</b>	<b>\$ 1,683,581</b>	<b>\$ 294,817</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT 8*

**BUDGETARY COMPARISON STATEMENT  
COUNTY DITCH SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Special assessments	\$ 65,000	\$ 65,000	\$ 76,697	\$ 11,697
Miscellaneous	-	-	2,365	2,365
<b>Total Revenues</b>	<b>\$ 65,000</b>	<b>\$ 65,000</b>	<b>\$ 79,062</b>	<b>\$ 14,062</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Other (ditch repairs)	\$ 130,000	\$ 130,000	\$ 119,461	\$ 10,539
<b>Debt service</b>				
Interest	-	-	566	(566)
<b>Total Expenditures</b>	<b>\$ 130,000</b>	<b>\$ 130,000</b>	<b>\$ 120,027</b>	<b>\$ 9,973</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (65,000)</b>	<b>\$ (65,000)</b>	<b>\$ (40,965)</b>	<b>\$ 24,035</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	7,277	7,277
<b>Net Change in Fund Balance</b>	<b>\$ (65,000)</b>	<b>\$ (65,000)</b>	<b>\$ (33,688)</b>	<b>\$ 31,312</b>
<b>Fund Balance - January 1</b>	<b>217,587</b>	<b>217,587</b>	<b>217,587</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 152,587</b>	<b>\$ 152,587</b>	<b>\$ 183,899</b>	<b>\$ 31,312</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT 9*

**STATEMENT OF FIDUCIARY NET ASSETS  
AGENCY FUNDS  
DECEMBER 31, 2008**

<b><u>Assets</u></b>	
Cash and pooled investments	<b><u>\$ 280,771</u></b>
<b><u>Liabilities</u></b>	
Accounts payable	\$ 24,470
Due to other governments	<u>256,301</u>
<b>Total Liabilities</b>	<b><u>\$ 280,771</u></b>

This page was left blank intentionally.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008**

---

---

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2008. 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

Watonwan County was established February 25, 1860, 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 joint ventures described in Note 5.B. The County also participates in jointly-governed organizations described in Note 5.C.

B. Basic Financial Statements

1. County-Wide Statements

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

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. County-Wide Statements (Continued)

In the county-wide statement of net assets, the governmental activities column: (a) is presented on a consolidated basis; and (b) is 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, net of related debt; (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 a separate column 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.

**WATONWAN COUNTY  
ST. JAMES, 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 Human Services Special Revenue Fund is used to account for economic assistance and community social services programs.

The County Ditch Special Revenue Fund is used to account for the operations of the County ditch system. Financing is provided by assessing benefited property owners.

The Debt Service Fund is used to account for the revenues and expenditures related to the County's debt activity.

Additionally, the County reports the following fund types:

Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) legally restricted to expenditures for specified purposes.

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 county-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. Shared revenues are generally recognized in the period the appropriation goes into effect. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**WATONWAN COUNTY  
ST. JAMES, 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. Watonwan County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, shared revenues, 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 long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2008, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Pooled investment earnings for 2008 were \$183,597.

Watonwan County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission (SEC), but does operate in a manner consistent with Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7). Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

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.

Investments of the County are reported at fair value.

2. Receivables and Payables

Activities between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.” All other outstanding balances between funds are reported as “due to/from other funds.”

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

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

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.

3. Inventories

The Road and Bridge Special Revenue Fund inventory is valued using the weighted average method. Inventories in governmental funds are recorded as expenditures at the time the item is purchased. Inventories at the county-wide level are reported as expenses when consumed.

Inventories, as reported in the fund financial statements, are offset by a fund balance reserve to indicate that they do not constitute available spendable resources.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (such as roads and bridges), are reported in the county-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of five 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.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Capital Assets (Continued)

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.

Capital assets of the County are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25 - 50
Improvements other than buildings	20
Machinery, furniture, and equipment	5 - 20
Infrastructure	50 - 75

5. 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 county-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.

6. Deferred Revenue

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

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

1. Summary of Significant Accounting Policies

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

7. Long-Term Obligations

In the county-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as an other financing source. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Beginning in 2008, Watonwan County implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement required the County to calculate and record a net other postemployment benefit obligation (NOPEBO) at December 31, 2008. The NOPEBO is, in general, the cumulative difference between the actuarial required contribution and the actual contributions since the actuarial valuation date of January 1, 2008.

8. Fund Equity

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

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

1. Summary of Significant Accounting Policies

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

9. 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.

E. Restatement of Fund Balance

At January 1, 2008, the fund balance of the General Fund and the Library Fund were restated to correct interest revenue that was recognized in 2007 that should have been deferred to 2008. The following table summarizes these changes:

	<u>General Fund</u>	<u>Library Fund</u>
Fund Balance - January 1, as previously reported	\$ 4,272,481	\$ 487,496
Restatement	<u>(16,524)</u>	<u>(2,152)</u>
Fund Balance - January 1, as Restated	<u>\$ 4,255,957</u>	<u>\$ 485,344</u>

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

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

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

2. Stewardship, Compliance, and Accountability

A. Budgetary Information (Continued)

On or before mid-August of each year, all departments submit requests for appropriations to the County Auditor 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. Transfers of appropriations within a department and between departments require approval of the County Board. The legal level of budgetary control--the level at which expenditures may not legally exceed appropriations--is the fund level.

Encumbrance accounting is employed in governmental funds. Encumbrances 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.

B. Excess of Expenditures Over Budget

The funds shown below had expenditures in excess of budget for the year ended December 31, 2008.

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund	\$ 5,470,807	\$ 5,418,095	\$ 52,712
Road and Bridge Special Revenue Fund	4,473,093	4,050,588	422,505
Human Services Special Revenue Fund	4,724,768	4,386,777	337,991
Debt Service Fund	264,011	263,205	806
Solid Waste Special Revenue Fund	259,017	243,865	15,152

The excess of expenditures over budget was funded by unanticipated revenues and available fund balance.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

---

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Governmental funds	
Cash and pooled investments	\$ 8,313,733
Fiduciary funds	
Cash and pooled investments	
Agency funds	<u>280,771</u>
Total Cash and Investments	<u>\$ 8,594,504</u>

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 that 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 at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better and revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is 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. It is County policy to minimize custodial credit risk of deposits by making deposits with financial institutions as defined by Minn. Stat. § 118A.01, and by obtaining necessary documentation of perfected security interest in pledged collateral from the financial institutions. As of December 31, 2008, the County's deposits were not exposed to custodial credit risk.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. It is County policy to minimize exposure to interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; thereby avoiding the need to sell securities in the open market, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds or similar investment pools, and limiting the average maturity in accordance with the County's cash requirements.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in securities that meet the ratings requirements set by state statute.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County does not have a policy to mitigate custodial credit risk.

At December 31, 2008, none of the County's investments were subject to custodial credit risk.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's policy to minimize concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimal. As of December 31, 2008, all of the County's investment, carrying value balance of \$599,894, was invested in the MAGIC Fund.

2. Receivables

Receivables as of December 31, 2008, for the County are as follows:

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Taxes - prior	\$ 144,289	\$ -
Special assessments - prior	24,195	-
Special assessments - noncurrent	591,023	469,512
Accounts	244,758	-
Accrued interest	24,447	-
Due from other governments	1,996,395	187,000
Total	<u>\$ 3,025,107</u>	<u>\$ 656,512</u>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 695,771	\$ -	\$ -	\$ 695,771
Construction in progress	334,240	-	308,167	26,073
	<u>\$ 1,030,011</u>	<u>\$ -</u>	<u>\$ 308,167</u>	<u>\$ 721,844</u>
Total capital assets not depreciated				
Capital assets depreciated				
Buildings	\$ 7,860,568	\$ 28,721	\$ -	\$ 7,889,289
Land improvements	49,128	-	-	49,128
Machinery, furniture, and equipment	5,366,279	288,666	214,871	5,440,074
Infrastructure	41,360,168	1,902,032	-	43,262,200
	<u>\$ 54,636,143</u>	<u>\$ 2,219,419</u>	<u>\$ 214,871</u>	<u>\$ 56,640,691</u>
Total capital assets depreciated				
Less: accumulated depreciation for				
Buildings	\$ 2,078,881	\$ 182,881	\$ -	\$ 2,261,762
Land improvements	14,720	2,456	-	17,176
Machinery, furniture, and equipment	3,545,764	370,637	193,516	3,722,885
Infrastructure	11,262,269	838,855	-	12,101,124
	<u>\$ 16,901,634</u>	<u>\$ 1,394,829</u>	<u>\$ 193,516</u>	<u>\$ 18,102,947</u>
Total accumulated depreciation				
Total capital assets depreciated, net	<u>\$ 37,734,509</u>	<u>\$ 824,590</u>	<u>\$ 21,355</u>	<u>\$ 38,537,744</u>
Capital Assets, Net	<u>\$ 38,764,520</u>	<u>\$ 824,590</u>	<u>\$ 329,522</u>	<u>\$ 39,259,588</u>

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

General government	\$ 212,171
Public safety	80,439
Highways and streets, including depreciation of infrastructure assets	1,058,925
Sanitation	423
Environmental services	1,326
Human services	41,014
Conservation of natural resources	531
	<u>531</u>
Total Depreciation Expense	<u>\$ 1,394,829</u>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2008, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Human Services	\$ 41,788

The amount due to the General Fund from the Human Services Special Revenue Fund is for reimbursement for services. The reimbursement is expected to be repaid during the subsequent year.

2. Advances To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	County Ditch	\$ 60,000

The advance from the General Fund to the County Ditch Special Revenue Fund is a loan to cover the negative cash balance in County Ditch #62. This advance is expected to be repaid during the subsequent year.

3. Interfund Transfers

Transfers Out	Transfers In	Amount	Purpose
General	Road and Bridge	\$ 159,700	Allocated interest and truck purchase
	County Ditch	7,277	Allocated interest
	County Library	4,874	Allocated interest
Total transfers out of General Fund		\$ 171,851	
Human Services	General	69,519	2008 rent
Total Transfers In/Out		\$ 241,370	

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Other Postemployment Benefits (OPEB)

Watonwan County provides postemployment health care benefits for retirees and elected officials. Within 60 days of the effective date of an elected county official's retirement or termination, the County shall contribute an amount equal to the annual premium for single health insurance coverage in effect at the time of termination or retirement for every four complete years of service. As of December 31, 2008, the County recorded a liability of \$90,600 for the elected officials' termination benefits as a part of the compensated absences liability.

The County also provides health insurance benefits for eligible retired employees and their spouses under a single-employer self-insured plan. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b. Retirees are required to pay 100 percent of the total premium cost. Since the premium is determined on the entire active and retiree population, the retirees are receiving implicit rate subsidy. This postemployment benefit is funded on a pay-as-you-go basis usually paying retiree benefits out of the General Fund. For 2008, there were approximately 140 participants in the plan, including 4 retirees and 1 spouse. The implicit rate subsidy amount was determined by an actuarial study to be \$14,566 for 2008.

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the plan.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

3. Detailed Notes on All Funds

C. Liabilities

1. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

ARC	\$	57,101
Interest on net OPEB obligation		-
Adjustment to ARC		-
		<hr/>
Annual OPEB cost (expense)	\$	57,101
Contributions made		(14,566)
		<hr/>
Increase in net OPEB obligation	\$	42,535
Net OPEB Obligation - January 1		-
		<hr/>
Net OPEB Obligation - December 31	\$	42,535
		<hr/>

The County's annual OPEB cost for December 31, 2008, was \$57,101. The percentage of annual OPEB cost contributed to the plan was 25.5 percent, and the net OPEB liability for 2008 was \$42,535. Trend information for the previous two years is not available at this time based on the implementation date of December 31, 2008.

Funded Status and Funding Progress

As of January 1, 2008, the most recent actuarial valuation date, the plan was 0.0 percent funded. The actuarial liability for benefits was \$483,308, and the actuarial value of assets was \$0, resulting in an unfunded actuarial liability (UAAL) of \$483,308. The covered payroll (annual payroll of active employees covered by the plan) was \$5,006,800, and the ratio of the UAAL to the covered payroll was 9.7 percent.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

3. Detailed Notes on All Funds

C. Liabilities

1. Other Postemployment Benefits (OPEB)

Funded Status and Funding Progress (Continued)

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

Actuarial Methods and Assumptions

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

In the January 1, 2008, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of investment expenses), which is Watonwan County's implicit rate of return on the General Fund. The annual health care cost trend is 9.0 percent initially reduced by decrements to an ultimate rate of 5.0 percent over eight years. Both rates included a 3.0 percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2008, was 29 years.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Long-Term Debt

Bonds

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amount</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2008</u>
G.O. Capital Improvement Refunding Bonds, Series 2004A	2021	\$125,000 - \$190,000	3.00 - 4.50	\$ 2,115,000	\$ 1,995,000
G.O. Capital Improvement Bonds, Series 2005A	2026	\$30,000 - \$60,000	3.50 - 4.40	<u>845,000</u>	<u>785,000</u>
Total				<u>\$ 2,960,000</u>	\$ 2,780,000
Less: unamortized discount					<u>(36,028)</u>
Total General Obligation Bonds, Net					<u>\$ 2,743,972</u>

Capital improvement bonds are being retired by the Debt Service Fund.

Loans Payable

The County entered into loan agreements with the Minnesota Department of Agriculture and the Minnesota Pollution Control Agency for the purpose of funding Clean Water Partnership Projects. The loans are secured by special assessments against benefited properties. Loan payments are reported in the General Fund.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Long-Term Debt

Loans Payable (Continued)

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amount</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2008</u>
Watonwan Watershed Clean Water Partnership Project, SFR0047	2014	\$26,928	2.00	\$ 485,926	\$ 279,177
Watonwan Watershed Continuation Clean Water Partnership Project, SFR0108	2017	\$29,989	2.00	541,173	491,771
Watonwan Ag Best Management Loan Program	2018	\$2,786 - \$3,602	0.00	<u>63,549</u>	<u>57,202</u>
Total Loans				<u>\$ 1,090,648</u>	<u>\$ 828,150</u>

3. Debt Service Requirements

Debt service requirements at December 31, 2008, were as follows:

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>		<u>Loans Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 155,000	\$ 108,630	\$ 105,451	\$ 14,927
2010	165,000	103,470	107,634	12,939
2011	165,000	97,788	109,865	10,911
2012	170,000	91,788	112,143	8,842
2013	170,000	85,565	112,718	6,732
2014 - 2018	985,000	318,201	280,339	10,712
2019 - 2023	800,000	102,511	-	-
2024 - 2028	170,000	11,433	-	-
Total	<u>\$ 2,780,000</u>	<u>\$ 919,386</u>	<u>\$ 828,150</u>	<u>\$ 65,063</u>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
G.O. Capital Improvement Bonds, Series 2005A	\$ 815,000	\$ -	\$ 30,000	\$ 785,000	\$ 30,000
G. O. Capital Improvement Refunding Bonds, Series 2004A	2,115,000	-	120,000	1,995,000	125,000
Less: unamortized discount on bonds	<u>(38,822)</u>	<u>-</u>	<u>(2,794)</u>	<u>(36,028)</u>	<u>-</u>
Total bonds payable	\$ 2,891,178	\$ -	\$ 147,206	\$ 2,743,972	\$ 155,000
Loans payable	931,426	30	103,306	828,150	105,451
Net OPEB liability	-	57,101	14,566	42,535	-
Compensated absences	<u>925,049</u>	<u>84,437</u>	<u>-</u>	<u>1,009,486</u>	<u>550,697</u>
Long-Term Liabilities	<u>\$ 4,747,653</u>	<u>\$ 141,568</u>	<u>\$ 265,078</u>	<u>\$ 4,624,143</u>	<u>\$ 811,148</u>

D. 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. 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. 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 \$410,000 per claim in 2008 and \$430,000 per claim in 2009. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

3. Detailed Notes on All Funds

D. Risk Management (Continued)

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.

4. Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Watonwan 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 Service Retirement Fund (the Public Employees Correctional Fund), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

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.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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 hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Public Employees Police and Fire Fund members and Public Employees Correctional Fund members, and either 65 or 66 (depending on date hired) for Public Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the 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](http://www.mnpera.org); by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

4. Pension Plans

A. Defined Benefit Plans (Continued)

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. 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 9.1 and 6.0 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 8.6 percent of their annual covered salary in 2008. That rate increased to 9.4 percent in 2009. 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 2008 and 2009:

	2008	2009
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.50	6.75
Public Employees Police and Fire Fund	12.90	14.10
Public Employees Correctional Fund	8.75	8.75

The County's contributions for the years ending December 31, 2008, 2007, and 2006, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2008	2007	2006
Public Employees Retirement Fund	\$ 304,356	\$ 277,615	\$ 252,198
Public Employees Police and Fire Fund	57,354	48,898	43,865
Public Employees Correctional Fund	18,027	17,033	16,170

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

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

4. Pension Plans (Continued)

B. Defined Contribution Plan

Six employees of Watonwan County 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 established and administered in accordance with Minn. Stat. ch. 353D, which may be amended by the State Legislature. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5.0 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2008, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 8,126	\$ 8,126
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

5. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

The County 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

Red Rock Rural Water System

The Red Rock Rural Water System was established pursuant to Minn. Stat. ch. 116A through a joint powers agreement, pursuant to Minn. Stat. § 471.59, and under the jurisdiction of the Fifth Judicial District. Brown, Cottonwood, Jackson, Lyon, Martin, Murray, Redwood, and Watonwan Counties have agreed to guarantee their shares of debt arising within each respective county. The Red Rock Rural Water System provides water for participating rural water users and cities within the water district.

The governing body is composed of nine members appointed to three-year terms by the District Court. Each county is responsible for levying and collecting the special assessments from the benefited properties within the county. The bond issue and notes payable are shown as long-term debt in the financial statements of the Red Rock Rural Water System. Outstanding bonds at December 31, 2007, (the most current information available) amounted to \$6,180,000; notes payable were \$6,840,123. The Water System's net assets increased by \$6,920,615 in 2007.

A complete financial report of the Red Rock Rural Water System can be obtained at P. O. Box 160, Jeffers, Minnesota 56145.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Three Counties for Kids Collaborative

The Three Counties for Kids Collaborative was established in 1996 under the authority of Minn. Stat. § 471.59. The Collaborative includes Brown, Sibley, and Watonwan Counties; the River Bend Education District; and the Sioux Trails Mental Health Center. The purpose of the Collaborative is to join local units of government together to ensure a unified, unduplicated, and family friendly system of intervention and care for families and children.

Control of the Collaborative is vested in a Board of Directors consisting of seven members. Brown County Family Services acts as fiscal agent for the Collaborative. The Collaborative is financed by Local Collaborative Time Study (LCTS) funds. During 2008, Watonwan County made no contributions to the Collaborative. Any withdrawing party remains liable for fiscal obligations incurred prior to the effective date of withdrawal and shall not be entitled to any compensation as long as the Collaborative continues in existence. Should the Collaborative cease to exist, all property, real and personal, at the time of the termination shall be distributed by the Three Counties for Kids Collaborative Board of Directors.

Complete financial information may be obtained by contacting the Brown County Family Services Department, New Ulm, Minnesota 56073.

Vision for Family and Community Collaborative

The Vision for Family and Community Collaborative was established in 1996 under the authority of Minn. Stat. § 121.8355 (now Minn. Stat. § 124D.23). The Collaborative includes Watonwan County and St. James, Madelia, and Butterfield Independent School Districts. The Joint Powers Board ensures the availability of comprehensive services designed to enhance or strengthen family functioning.

Control of the Collaborative is vested in a Joint Powers Board. The Joint Powers Board is composed of nine members. Watonwan County Human Services acts as fiscal agent for the Collaborative. The Collaborative is financed by LCTS funds. During 2008, Watonwan County made no contributions to the Collaborative. Any withdrawing party remains fiscally liable until the effective date of withdrawal. Should the Collaborative

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Vision for Family and Community Collaborative (Continued)

cease to exist, all property, real and personal, held by the Joint Powers Board at the time of the termination shall be distributed by resolution of the Board in accordance with law and in a manner to best accomplish the purpose of the Collaborative.

Rural Minnesota Energy Board

The Rural Minnesota Energy Board was established in 2005 under the authority of Minn. Stat. § 471.59. The Board includes Cottonwood, Faribault, Jackson, Lincoln, Lyon, Martin, Mower, Murray, Nobles, Pipestone, Redwood, Renville, Rock, and Watonwan Counties. The purpose of the Board is to provide policy guidance on issues surrounding energy development in rural Minnesota and to foster the diversification of the economic climate in rural Minnesota. The focus of the Board includes, but is not limited to, renewable energy, wind energy, energy transmission lines, hydrogen energy technology, and bio-diesel and ethanol use.

The governing body is composed of one voting member and one alternate member from each participating county's Board of Commissioners. The Board shall remain in existence as long as two or more counties remain parties to the agreement. Should the Board cease to exist, assets shall be liquidated, after payment of liabilities, based upon the ratios set out under the equal and proportionate share articles of the agreement. During 2008, Watonwan County paid \$3,000 to the Board.

South Central Minnesota Regional Radio Board

The South Central Minnesota Regional Radio Board was established pursuant to Minn. Stat. §§ 471.59 and 403.39 and a joint powers agreement effective May 27, 2008. The Board consists of one County Commissioner from each county included in the agreement, one City Council member from each city included in the agreement, a member of the South Central Minnesota Regional Advisory Committee, a member of the South Central Minnesota Regional Radio System User Committee and a member of the Owners and Operators Committee. The primary function of the joint venture is to provide regional administration of enhancements to the Statewide Public Safety Radio and Communication System (AFMER), owned and operated by the State of Minnesota, and enhance and improve interoperable public safety communications.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

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

C. Jointly-Governed Organizations

The South Central Emergency Medical Services (SEMS) provides various emergency medical services to several counties. During the year, the County made no contributions to the SEMS.

The Minnesota River Board promotes orderly water quality improvement and management of the Minnesota River Watershed. During the year, the County paid \$1,175 for 2008 dues. As of February 2009, the County is no longer a member of this organization.

The Greater Blue Earth River Basin Alliance is a joint powers of counties and soil and water districts that combines project and implementation efforts to improve water quality in the Greater Blue Earth River Basin. During the year, the County paid \$2,812 to the Alliance.

The Minnesota Counties Computer Cooperative provides computer programming services for the County. During the year, the County purchased \$71,416 of services.

The South Central Regional IMMTRACK (immunization registry) Joint Powers Board promotes the implementation and maintenance of a regional immunization information system to ensure age-appropriate immunizations through complete and accurate records.

D. Agricultural Best Management Loan Program

The County has entered into an agreement with the Minnesota Department of Agriculture and a local lending institution to jointly administer a loan program to individuals to implement projects that prevent or mitigate non-point source water pollution. While the County is not liable for the repayment of the loan in any manner, it does have certain responsibilities under the agreement. The County has met those responsibilities for 2008.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

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

E. Special Benefit Tax Levy

In 1993, the South Central Minnesota Multi-County Housing Authority issued \$20,315,000 of revenue bonds to construct housing units in Watonwan County and four surrounding counties. The Authority has since defaulted on these bonds. In 2000, the counties entered into a settlement agreement where each of the counties will approve a special benefit tax levy on behalf of the Authority from 2001 through 2024 to cover the operating deficits based on each county's proportionate share of housing units constructed. Watonwan County's proportionate share of the operating deficit for 2008 is \$79,875. The proportionate share of the counties may change for years 2009 through 2024 if there are changes in the taxable market value over the 2001 taxable market value; however, the County's share may not increase by the lesser of two percent or the increase over the 2001 taxable market value.

**REQUIRED SUPPLEMENTARY INFORMATION**

This page was left blank intentionally.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**Schedule 1**

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS  
DECEMBER 31, 2008

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2008	\$0	\$483,308	\$483,308	0.0%	\$5,006,800	9.7%

See Note 3.C.1., Other Postemployment Benefits, for more information.

Multi-year trend information is not available at this time, as Governmental Accounting Standards Board Statement 45 was implemented in 2008.

This page was left blank intentionally.

**COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS  
AND SCHEDULES**

This page was left blank intentionally.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*Statement 1*

**BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 223,355	\$ 223,355	\$ 223,330	\$ (25)
Intergovernmental	42,675	42,675	42,676	1
Investment earnings	-	-	-	-
<b>Total Revenues</b>	<b>\$ 266,030</b>	<b>\$ 266,030</b>	<b>\$ 266,006</b>	<b>\$ (24)</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 150,000	\$ 150,000	\$ 150,000	\$ -
Interest	113,205	113,205	113,205	-
Administrative charges	-	-	806	(806)
<b>Total Expenditures</b>	<b>\$ 263,205</b>	<b>\$ 263,205</b>	<b>\$ 264,011</b>	<b>\$ (806)</b>
<b>Net Change in Fund Balance</b>	<b>\$ 2,825</b>	<b>\$ 2,825</b>	<b>\$ 1,995</b>	<b>\$ (830)</b>
<b>Fund Balance - January 1</b>	<b>258,222</b>	<b>258,222</b>	<b>258,222</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 261,047</b>	<b>\$ 261,047</b>	<b>\$ 260,217</b>	<b>\$ (830)</b>

This page was left blank intentionally.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**OTHER GOVERNMENTAL FUNDS**

Special Revenue Funds

County Library - to account for the funds of the County library system. Financing comes primarily from an annual tax levy and intergovernmental revenue from the state government.

Solid Waste - to account for the County recycling programs. Financing is provided by a tax levy, user charges, and state grants.

This page was left blank intentionally.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**Statement 2**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2008**

	<b>Special Revenue Funds</b>		<b>Total</b>
	<b>County Library</b>	<b>Solid Waste</b>	
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 507,299	\$ 411,734	\$ 919,033
Taxes receivable			
Prior	9,913	259	10,172
Special assessments receivable			
Prior	-	15,820	15,820
Accrued interest receivable	996	-	996
<b>Total Assets</b>	<b>\$ 518,208</b>	<b>\$ 427,813</b>	<b>\$ 946,021</b>
<b><u>Liabilities and Fund Balances</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 3,797	\$ 18,062	\$ 21,859
Salaries payable	16,716	-	16,716
Deferred revenue - unavailable	7,702	12,351	20,053
<b>Total Liabilities</b>	<b>\$ 28,215</b>	<b>\$ 30,413</b>	<b>\$ 58,628</b>
<b>Fund Balances</b>			
Reserved for donations	\$ 152,732	\$ -	\$ 152,732
Unreserved			
Designated for cash flows	286,811	6,875	293,686
Designated for compensated absences	50,450	-	50,450
Undesignated	-	390,525	390,525
<b>Total Fund Balances</b>	<b>\$ 489,993</b>	<b>\$ 397,400</b>	<b>\$ 887,393</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 518,208</b>	<b>\$ 427,813</b>	<b>\$ 946,021</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**Statement 3**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<b>Special Revenue Funds</b>		<b>Total</b>
	<b>County Library</b>	<b>Solid Waste</b>	
<b>Revenues</b>			
Taxes	\$ 417,637	\$ 5,883	\$ 423,520
Special assessments	-	175,631	175,631
Intergovernmental	107,100	57,671	164,771
Charges for services	4,030	-	4,030
Fines and forfeits	9,479	-	9,479
Gifts and contributions	8,900	-	8,900
Investment earnings	6,200	-	6,200
Miscellaneous	357	10,534	10,891
<b>Total Revenues</b>	<b>\$ 553,703</b>	<b>\$ 249,719</b>	<b>\$ 803,422</b>
<b>Expenditures</b>			
<b>Current</b>			
Sanitation	\$ -	\$ 259,017	\$ 259,017
Culture and recreation	553,928	-	553,928
<b>Total Expenditures</b>	<b>\$ 553,928</b>	<b>\$ 259,017</b>	<b>\$ 812,945</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (225)</b>	<b>\$ (9,298)</b>	<b>\$ (9,523)</b>
<b>Other Financing Sources (Uses)</b>			
Transfers in	4,874	-	4,874
<b>Net Change in Fund Balances</b>	<b>\$ 4,649</b>	<b>\$ (9,298)</b>	<b>\$ (4,649)</b>
Fund Balances - January 1, as previously reported	\$ 487,496	\$ 406,698	\$ 894,194
Restatement (Note 1.E.)	(2,152)	-	(2,152)
<b>Fund Balances - January 1, as restated</b>	<b>\$ 485,344</b>	<b>\$ 406,698</b>	<b>\$ 892,042</b>
<b>Fund Balances - December 31</b>	<b>\$ 489,993</b>	<b>\$ 397,400</b>	<b>\$ 887,393</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**Statement 4**

**BUDGETARY COMPARISON SCHEDULE  
COUNTY LIBRARY SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 417,900	\$ 417,900	\$ 417,637	\$ (263)
Intergovernmental	111,522	111,522	107,100	(4,422)
Charges for services	4,670	4,670	4,030	(640)
Fines and forfeits	9,000	9,000	9,479	479
Gifts and contributions	-	-	8,900	8,900
Investment earnings	5,000	5,000	6,200	1,200
Miscellaneous	-	-	357	357
<b>Total Revenues</b>	<b>\$ 548,092</b>	<b>\$ 548,092</b>	<b>\$ 553,703</b>	<b>\$ 5,611</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Culture and recreation</b>				
County library	570,846	570,846	553,928	16,918
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (22,754)</b>	<b>\$ (22,754)</b>	<b>\$ (225)</b>	<b>\$ 22,529</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	4,874	4,874
<b>Net Change in Fund Balance</b>	<b>\$ (22,754)</b>	<b>\$ (22,754)</b>	<b>\$ 4,649</b>	<b>\$ 27,403</b>
Fund Balance - January 1, as previously reported	\$ 487,496	\$ 487,496	\$ 487,496	\$ -
Restatement (Note 1.E.)	(2,152)	(2,152)	(2,152)	-
<b>Fund Balance - January 1, as restated</b>	<b>\$ 485,344</b>	<b>\$ 485,344</b>	<b>\$ 485,344</b>	<b>\$ -</b>
<b>Fund Balance - December 31</b>	<b>\$ 462,590</b>	<b>\$ 462,590</b>	<b>\$ 489,993</b>	<b>\$ 27,403</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*Statement 5*

**BUDGETARY COMPARISON SCHEDULE  
SOLID WASTE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 10,852	\$ 10,852	\$ 5,883	\$ (4,969)
Special assessments	169,625	169,625	175,631	6,006
Intergovernmental	57,898	57,898	57,671	(227)
Miscellaneous	5,000	5,000	10,534	5,534
<b>Total Revenues</b>	<b>\$ 243,375</b>	<b>\$ 243,375</b>	<b>\$ 249,719</b>	<b>\$ 6,344</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Sanitation</b>				
SCORE	243,865	243,865	259,017	(15,152)
<b>Net Change in Fund Balance</b>	<b>\$ (490)</b>	<b>\$ (490)</b>	<b>\$ (9,298)</b>	<b>\$ (8,808)</b>
<b>Fund Balance - January 1</b>	<b>406,698</b>	<b>406,698</b>	<b>406,698</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 406,208</b>	<b>\$ 406,208</b>	<b>\$ 397,400</b>	<b>\$ (8,808)</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**AGENCY FUNDS**

Agency - to account for the collection and disbursement of funds for the state or other local governments, including game and fish fees, licenses, fines, police and fire aids, deed taxes, and mortgage registry taxes.

Vision for Family and Community - to account for the funds of a County/multi-school district family service collaborative.

Taxes and Penalties - to account for the collection and disbursement of taxes and penalties.

Cemetery - to account for the investment of funds for Antrim Township Cemetery.

This page was left blank intentionally.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*Statement 6*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<b><u>AGENCY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>13,933</u>	\$ <u>2,120,843</u>	\$ <u>2,122,321</u>	\$ <u>12,455</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>13,933</u>	\$ <u>2,120,843</u>	\$ <u>2,122,321</u>	\$ <u>12,455</u>
 <b><u>VISION FOR FAMILY AND COMMUNITY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>71,645</u>	\$ <u>131,268</u>	\$ <u>115,675</u>	\$ <u>87,238</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>71,645</u>	\$ <u>131,268</u>	\$ <u>115,675</u>	\$ <u>87,238</u>
 <b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>102,579</u>	\$ <u>11,944,030</u>	\$ <u>11,890,001</u>	\$ <u>156,608</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>102,579</u>	\$ <u>11,944,030</u>	\$ <u>11,890,001</u>	\$ <u>156,608</u>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

***Statement 6  
(Continued)***

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>CEMETERY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 25,484	\$ 1,014	\$ 24,470
<b><u>Liabilities</u></b>				
Accounts payable	\$ -	\$ 25,484	\$ 1,014	\$ 24,470
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 188,157	\$ 14,221,625	\$ 14,129,011	\$ 280,771
<b><u>Liabilities</u></b>				
Accounts payable	\$ -	\$ 25,484	\$ 1,014	\$ 24,470
Due to other governments	188,157	14,196,141	14,127,997	256,301
<b>Total Liabilities</b>	<b>\$ 188,157</b>	<b>\$ 14,221,625</b>	<b>\$ 14,129,011</b>	<b>\$ 280,771</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*Schedule 2*

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**Shared Revenue**

**State**

Highway users tax	\$	2,537,005
PERA rate reimbursement		19,906
Disparity reduction aid		5,078
Police aid		48,898
County program aid		823,143
Market value credit		618,712
Enhanced 911		84,813
		84,813

**Total Shared Revenue** **\$ 4,137,555**

**Reimbursement for Services**

**State**

Minnesota Department of Human Services	\$	<b>448,804</b>
		<b>448,804</b>

**Payments**

**Local**

Local contributions	\$	24,356
Payments in lieu of taxes		7,045
		7,045

**Total Payments** **\$ 31,401**

**Grants**

**State**

Minnesota Department/Board of		
Public Safety	\$	55,230
Health		64,999
Environmental Assistance		55,000
Natural Resources		1,141
Trial Courts		1,591
Human Services		916,354
Corrections		6,567
Veterans affairs		4,572
Transportation		306,099
Water and Soil Resources		82,473
Pollution Control Agency		25,682
Peace Officer Standards and Training Board		2,804
		2,804

**Total State** **\$ 1,522,512**

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**Schedule 2  
(Continued)**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**Grants (Continued)**

**Federal**

Department of

Agriculture

Transportation

Health and Human Services

Homeland Security

\$	181,815
	467,708
	969,723
	<u>2,427</u>

**Total Federal**

<b>\$</b>	<b><u>1,621,673</u></b>
-----------	-------------------------

**Total State and Federal Grants**

<b>\$</b>	<b><u>3,144,185</u></b>
-----------	-------------------------

**Total Intergovernmental Revenue**

<b>\$</b>	<b><u><u>7,761,945</u></u></b>
-----------	--------------------------------



This page was left blank intentionally.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*Schedule 3*

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

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

- A. Our report expresses unqualified opinions on the basic financial statements of Watonwan County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Watonwan 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*." None were material weaknesses.
- C. No instances of noncompliance material to the financial statements of Watonwan County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Watonwan County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Highway Planning and Construction	CFDA #20.205
Social Services Block Grant Title XX	CFDA #93.667
Medical Assistance	CFDA #93.778
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Watonwan County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

06-1 Preparation of Financial Statements

Watonwan 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.

The County has upgraded its accounting system to accommodate the modified and full accrual bases of accounting in separate ledgers to allow for the preparation of annual financial statements in accordance with GAAP. However, certain accounting services were provided by the Office of the State Auditor in compiling complete financial statements.

We recommend the County continue to work toward internally preparing complete annual financial statements in accordance with GAAP.

Client's Response:

*County personnel will continue to work at improving preparing financial statements. Training has been provided to utilize the accounting software in preparation of statements, both government-wide and fund. Personnel will continue to add to the statements and related notes provided to the State Auditor.*

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. One control deficiency that typically is considered significant is identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls. During our audit, we proposed audit adjustments, which were 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 government's internal control.

We recommend the County continue its efforts in reducing the audit entries by establishing review procedures to ensure all postings to the general ledger and supporting schedules are accurate and complete.

Client's Response:

*2008 was the first year that County staffing presented fund financial statements. Audit adjustments were inadvertently missed on both revenue recognition and payables. While the number was limited, the amounts were material and lessons were learned as far as what to look for when making adjustments for revenue recognition and matching expenditures.*

PREVIOUSLY REPORTED ITEM RESOLVED

**Transit Department Segregation of Duties and Procedures (05-1)**

The County did not have procedures in place to ensure adequate internal controls in the Transit Department.

**Resolution**

The County has implemented procedures to strengthen internal controls in the Transit Department.

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

None.

This page was left blank intentionally.



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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

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

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

Board of County Commissioners  
Watonwan County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Watonwan County as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 30, 2009. 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 Watonwan 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 06-1 and 06-2 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 Watonwan 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, we believe none of the significant deficiencies described above is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Watonwan 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, Watonwan County complied with the material terms and conditions of applicable legal provisions.

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

This report is intended solely for the information and use of the Board of County Commissioners, management, others within 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*

*/s/Greg Hierlinger*

REBECCA OTTO  
STATE AUDITOR

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

November 30, 2009

This page was left blank intentionally.



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

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

Board of County Commissioners  
Watonwan County

### Compliance

We have audited the compliance of Watonwan County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. Watonwan County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Watonwan 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, Watonwan County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

### Internal Control Over Compliance

The management of Watonwan 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 Watonwan 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 Watonwan County as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 30, 2009. Our audit was performed for the purpose of forming opinions on the 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

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

November 30, 2009

This page was left blank intentionally.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**Schedule 4**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 77,800
Passed Through Minnesota Department of Human Services State Administrative Matching Grant for Supplemental Nutrition Assistance	10.561	103,715
Passed Through Minnesota Department of Agriculture WIC Farmers Market Nutrition Program (FMNP)	10.572	<u>300</u>
<b>Total U.S. Department of Agriculture</b>		<b><u>\$ 181,815</u></b>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 351,902
Public Transportation for Non-Urbanized Areas	20.509	103,108
Passed Through the City of New Ulm State and Community Highway Safety	20.600	<u>12,698</u>
<b>Total U.S. Department of Transportation</b>		<b><u>\$ 467,708</u></b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Health Centers for Disease Control and Prevention	93.283	\$ 32,835
Temporary Assistance for Needy Families (TANF)	93.558	21,177
Maternal and Child Health Services Block Grant	93.994	18,512
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	25
Temporary Assistance for Needy Families (TANF)	93.558	133,937
Child Support Enforcement	93.563	210,269
Refugee and Entrance Assistance Grant	93.566	315
Child Care Development Block Grant	93.575	4,045
Foster Care Title IV-E	93.658	106,966
Social Services Block Grant Title XX	93.667	91,033
Chafee Foster Care Independence Program	93.674	25,507
Children's Health Insurance Program	93.767	167
Medical Assistance Program	93.778	335,389
Community Mental Health Services Block Grant	93.958	<u>2,329</u>
<b>Total U.S. Department of Health and Human Services</b>		<b><u>\$ 982,506</u></b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*Schedule 4*  
*(Continued)*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Public Safety Homeland Security Grant Program	97.067	<u>\$ 2,427</u>
<b>Total Federal Awards</b>		<u><u>\$ 1,634,456</u></u>

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 Watonwan 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.
3. Due to timing differences in revenue recognition under the modified accrual basis, expenditures on this schedule may not equal federal revenues reported in the financial statements. In 2008, \$6,808 of prior year federal expenditures were recognized as revenues in the financial statements, and \$19,591 of current year federal expenditures were not recognized as revenues because they were not received within the period of availability.
4. During the year, the County did not pass any federal money to subrecipients.
5. Pass-through grant numbers were not assigned by the pass-through agencies.