

# STATE OF MINNESOTA

## Office of the State Auditor



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

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

**YEAR ENDED DECEMBER 31, 2009**

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

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

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

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

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

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

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

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

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

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

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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**Year Ended December 31, 2009**



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

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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**ORGANIZATION  
2009**

<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	Mike Wacker	January 2013
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

\*2009 Chair

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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## INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
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, 2009, 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, 2009, 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.

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 September 23, 2010, 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

September 23, 2010

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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

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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2009  
(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, 2009. 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 2009 by \$47,641,699. Of this amount, \$7,273,491 (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 \$2,166,092 in 2009.
- At the close of 2009, Watonwan County's governmental funds reported combined ending fund balances of \$8,894,181, of which \$7,710,060 is unreserved, including approximately \$3,051,107 available for spending at the County's discretion noted as unreserved, undesignated fund balance.
- At the close of 2009, unreserved fund balance for the General Fund was \$3,917,319, or 68.7 percent, of total General Fund expenditures.
- Watonwan County's total bonds payable decreased by \$155,000. There were payments of \$30,000 and \$125,000 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 on 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 four 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 \$47,641,699 at the close of 2009. The largest portion of Watonwan County's net assets (81.6 percent) reflects its investment in capital assets (for example, land, buildings, and equipment), less any related debt used to acquire those assets that are still outstanding. However, it should be noted that these assets are not available for future spending.

### Governmental Net Assets

	2009	2008
Current and other assets	\$ 11,449,699	\$ 11,576,885
Capital assets	41,470,153	39,259,588
Total Assets	<u>\$ 52,919,852</u>	<u>\$ 50,836,473</u>
Long-term liabilities outstanding	\$ 4,289,090	\$ 4,624,143
Other liabilities	989,063	736,723
Total Liabilities	<u>\$ 5,278,153</u>	<u>\$ 5,360,866</u>
Net Assets		
Invested in capital assets - net of related debt	\$ 38,878,396	\$ 36,515,516
Restricted	1,489,812	2,049,356
Unrestricted	<u>7,273,491</u>	<u>6,910,735</u>
Total Net Assets	<u><u>\$ 47,641,699</u></u>	<u><u>\$ 45,475,607</u></u>

The unrestricted net asset amount of \$7,273,491 as of December 31, 2009, may be used to meet the County's ongoing obligations to citizens and creditors.

### Governmental Activities

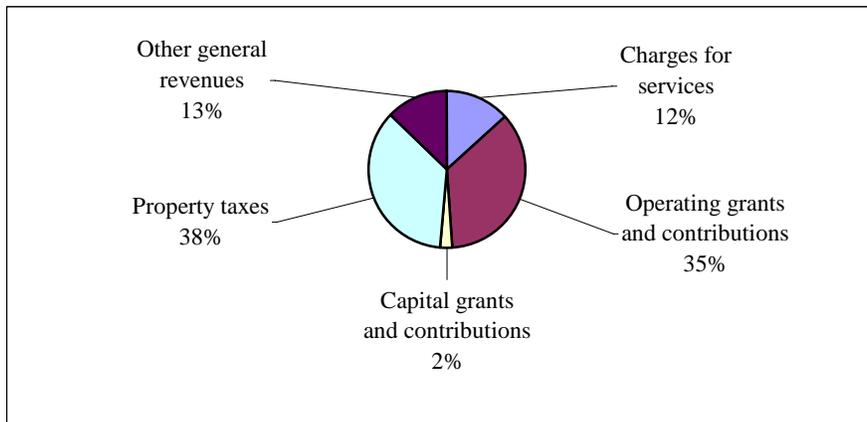
The following table summarizes the changes in net assets for 2009.

### Changes in Governmental Net Assets

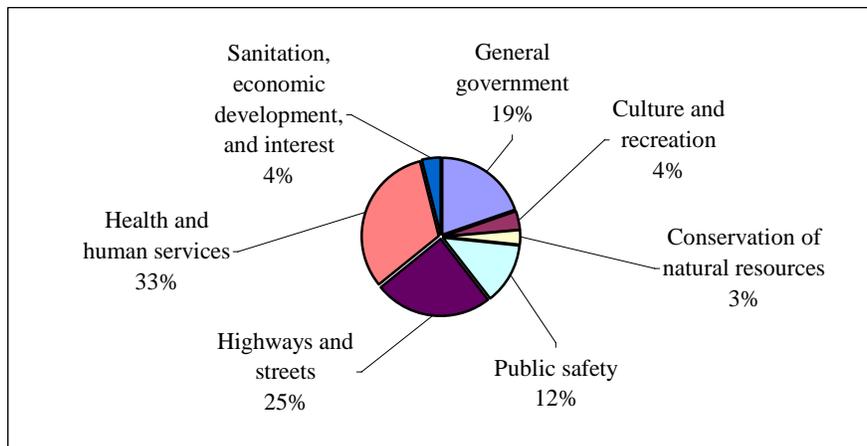
	2009	2008
Revenues		
Program revenues		
Charges for services	\$ 1,967,085	\$ 1,898,644
Operating grants and contributions	5,973,054	6,249,283
Capital grants and contributions	341,678	296,041
General revenues		
Property taxes	6,391,441	6,073,979
Other	<u>2,256,362</u>	<u>1,749,670</u>
Total Revenues	<u>\$ 16,929,620</u>	<u>\$ 16,267,617</u>

	2009	2008
Expenses		
General government	\$ 2,850,009	\$ 2,941,186
Public safety	1,825,301	1,845,580
Highways and streets	3,614,317	3,799,652
Sanitation	226,822	246,752
Human services	4,435,383	4,251,722
Health	467,342	473,019
Culture and recreation	602,253	596,452
Conservation of natural resources	454,585	475,277
Economic development	160,539	145,259
Interest	126,977	134,503
<b>Total Expenses</b>	<b>\$ 14,763,528</b>	<b>\$ 14,909,402</b>
Increase in Net Assets	\$ 2,166,092	\$ 1,358,215
Net Assets - January 1	45,475,607	44,117,392
Net Assets - December 31	<b>\$ 47,641,699</b>	<b>\$ 45,475,607</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 \$8,894,181. The majority of this amount (\$7,710,060) 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 \$3,917,319, while the total fund balance was \$4,763,220. 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 68.7 percent of total General Fund expenditures for 2009, while total fund balance represents 83.6 percent of total General Fund expenditures. In 2009, the total fund balance in the General Fund increased by \$359,193, with unreserved fund balances increasing by \$233,391 and reserved fund balances increasing by \$125,802. The primary reasons for the increase in unreserved fund balance were the general government revenues exceeding budget by approximately \$191,000 and expenditures under budget by \$88,603. The primary reasons for the increase in reserved fund balance were radio maintenance funds not previously recognized as reserved and an increase in the Recorder's Equipment Fund from revenues exceeding expenditures in the current budget.

The Road and Bridge Special Revenue Fund's fund balance decreased by \$23,002 in 2009. The main reason for the decrease was due to a slight increase in construction and maintenance activities beyond the level of state-aid funds received.

In 2009, the Human Services Special Revenue Fund's fund balance increased by \$14,712.

### **General Fund Budgetary Highlights**

The largest revenue variances were in miscellaneous revenue, which were due to a dividend from workers' compensation and property/casualty insurance and cost allocation funds from administering Department of Human Services programs. On the expenditure side, actual expenditures were \$88,603 less than budgeted. Significant variances over budget were motor pool expenses (\$62,571), which were unbudgeted. Significant positive variances on the expenditure side included the Sheriff's Department (\$38,522), Central Services (\$25,053), and Information Services (\$51,485).

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2009, amounts to \$41,470,153 (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.

	Governmental Capital Assets (Net of Depreciation)	
	2009	2008
Land	\$ 695,771	\$ 695,771
Construction in progress	49,274	26,073
Land improvements	29,495	31,952
Buildings and improvements	5,445,280	5,627,527
Machinery, furniture, and equipment	1,651,197	1,717,189
Infrastructure	33,599,136	31,161,076
Total	<u>\$ 41,470,153</u>	<u>\$ 39,259,588</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 outstanding of \$2,591,757, which is backed by the full faith and credit of the government. Watonwan County's bonds are not rated.

	Governmental Outstanding Debt	
	2009	2008
General obligation bonds	<u>\$ 2,591,757</u>	<u>\$ 2,743,972</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 2009, 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 8.0 percent as of the end of 2009. This is slightly higher than the state-wide rate of 7.4 percent.
- Farm land values continued to increase in 2009, reflecting the profitability in crop farming at this time. Home values continue to decline, especially in the city of St. James with closure of Westin Automotive, Inc., a major employer in the City.

At the end of 2009, Watonwan County set its 2010 revenue and expenditure budgets: 2010 budgeted revenues and expenditures of \$16,606,064 and \$16,799,806, 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**

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**COUNTY-WIDE FINANCIAL STATEMENTS**

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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET ASSETS  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2009**

**Assets**

Cash and pooled investments	\$	9,063,933
Taxes receivable		
Prior - net		166,891
Special assessments receivable		
Prior - net		26,675
Noncurrent		552,307
Accounts receivable		287,979
Accrued interest receivable		5,578
Due from other governments		1,132,760
Inventories		185,488
Deferred debt issuance costs		28,088
Capital assets		
Non-depreciable		745,045
Depreciable - net of accumulated depreciation		40,725,108
		40,725,108
<b>Total Assets</b>	<b>\$</b>	<b>52,919,852</b>

**Liabilities**

Accounts payable	\$	242,839
Salaries payable		293,220
Due to other governments		133,118
Accrued interest payable		44,772
Unearned revenue		75,114
Advance from other governments		200,000
Long-term liabilities		
Due within one year		771,138
Due in more than one year		3,517,952
		3,517,952
<b>Total Liabilities</b>	<b>\$</b>	<b>5,278,153</b>

**Net Assets**

Invested in capital assets - net of related debt	\$	38,878,396
Restricted for		
General government		79,754
Public safety		361,784
Highways and streets		481,932
Culture and recreation		152,732
Conservation of natural resources		123,613
Economic development		24,525
Debt service		265,472
Unrestricted		7,273,491
		7,273,491
<b>Total Net Assets</b>	<b>\$</b>	<b>47,641,699</b>

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

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT 2*

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Change in Net Assets</u>	
	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>	<u>Operating Grants and Contributions</u>		<u>Capital Grants and Contributions</u>
<b><u>Functions/Programs</u></b>					
<b>Primary government</b>					
<b>Governmental activities</b>					
General government	\$ 2,850,009	\$ 441,607	\$ 297,367	\$ 42,884	\$ (2,068,151)
Public safety	1,825,301	218,157	194,949	-	(1,412,195)
Highways and streets	3,614,317	259,532	2,967,964	294,296	(92,525)
Sanitation	226,822	180,338	55,475	-	8,991
Human services	4,435,383	456,779	2,160,541	-	(1,818,063)
Health	467,342	32,991	235,110	-	(199,241)
Culture and recreation	602,253	18,895	-	4,498	(578,860)
Conservation of natural resources	454,585	263,346	61,648	-	(129,591)
Economic development	160,539	95,440	-	-	(65,099)
Interest	126,977	-	-	-	(126,977)
<b>Total Governmental Activities</b>	<b><u>\$ 14,763,528</u></b>	<b><u>\$ 1,967,085</u></b>	<b><u>\$ 5,973,054</u></b>	<b><u>\$ 341,678</u></b>	<b><u>\$ (6,481,711)</u></b>
<b>General Revenues</b>					
Property taxes					\$ 6,391,441
Mortgage registry and deed tax					5,950
Grants and contributions not restricted to specific programs					2,089,347
Unrestricted investment earnings					82,988
Miscellaneous					78,077
<b>Total general revenues</b>					<b><u>\$ 8,647,803</u></b>
<b>Change in net assets</b>					<b><u>\$ 2,166,092</u></b>
<b>Net Assets - January 1</b>					<b><u>45,475,607</u></b>
<b>Net Assets - December 31</b>					<b><u>\$ 47,641,699</u></b>

**FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2009**

	<b>General</b>	<b>Road and Bridge</b>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 4,900,049	\$ 1,063,781
Taxes receivable		
Prior	84,944	20,157
Special assessments		
Prior	7,817	15
Noncurrent	499,719	-
Accounts receivable	37,236	1,467
Accrued interest receivable	4,189	-
Due from other funds	20,014	21,156
Due from other governments	23,182	623,280
Inventories	-	185,488
Advances to other funds	60,000	-
	<b>\$ 5,637,150</b>	<b>\$ 1,915,344</b>
<b>Total Assets</b>	<b>\$ 5,637,150</b>	<b>\$ 1,915,344</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>
\$ 1,698,887	\$ 205,225	\$ 263,963	\$ 932,028	\$ 9,063,933
43,463	-	6,216	12,111	166,891
-	35	-	18,808	26,675
-	52,588	-	-	552,307
244,945	4,331	-	-	287,979
-	-	-	1,389	5,578
-	-	-	-	41,170
299,298	-	187,000	-	1,132,760
-	-	-	-	185,488
-	-	-	-	60,000
<u>\$ 2,286,593</u>	<u>\$ 262,179</u>	<u>\$ 457,179</u>	<u>\$ 964,336</u>	<u>\$ 11,522,781</u>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2009**

	<b>General</b>	<b>Road and Bridge</b>
<b><u>Liabilities and Fund Balances</u></b>		
<b>Liabilities</b>		
Accounts payable	\$ 72,513	\$ 21,284
Salaries payable	131,981	51,803
Due to other funds	19,256	-
Due to other governments	11,276	-
Deferred revenue - unavailable	563,790	545,529
Deferred revenue - unearned	75,114	-
Advances from other funds	-	-
Advances from other governments	-	200,000
	<b>\$ 873,930</b>	<b>\$ 818,616</b>
<b>Fund Balances</b>		
Reserved for		
Inventories	\$ -	\$ 185,488
Advances to other funds	60,000	-
Law library	31,503	-
Recorder's equipment	34,154	-
E-911	263,457	-
Radio maintenance	95,412	-
Sheriff's contingency	2,915	-
Future projects	4,424	-
Donations	9,673	-
ISTS loans	244,704	-
Water plan	39,674	-
Clean water partnership	35,460	-
HRA special benefits levy	24,525	-
Unreserved		
Designated for cash flows	1,952,388	515,010
Designated for compensated absences	341,466	218,788
Designated for debt service	-	-
Undesignated	1,623,465	177,442
Unreserved, reported in nonmajor Special revenue funds	-	-
	<b>\$ 4,763,220</b>	<b>\$ 1,096,728</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 5,637,150</b>	<b>\$ 1,915,344</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>
\$ 146,091	\$ 1,656	\$ -	\$ 1,295	\$ 242,839
95,535	-	-	13,901	293,220
19,896	2,018	-	-	41,170
121,842	-	-	-	133,118
204,936	52,621	191,707	24,556	1,583,139
-	-	-	-	75,114
-	60,000	-	-	60,000
-	-	-	-	200,000
<u>\$ 588,300</u>	<u>\$ 116,295</u>	<u>\$ 191,707</u>	<u>\$ 39,752</u>	<u>\$ 2,628,600</u>
\$ -	\$ -	\$ -	\$ -	\$ 185,488
-	-	-	-	60,000
-	-	-	-	31,503
-	-	-	-	34,154
-	-	-	-	263,457
-	-	-	-	95,412
-	-	-	-	2,915
-	-	-	-	4,424
-	-	-	152,732	162,405
-	-	-	-	244,704
-	-	-	-	39,674
-	-	-	-	35,460
-	-	-	-	24,525
1,060,376	-	-	-	3,527,774
305,453	-	-	-	865,707
-	-	265,472	-	265,472
332,464	145,884	-	-	2,279,255
-	-	-	771,852	771,852
<u>\$ 1,698,293</u>	<u>\$ 145,884</u>	<u>\$ 265,472</u>	<u>\$ 924,584</u>	<u>\$ 8,894,181</u>
<u>\$ 2,286,593</u>	<u>\$ 262,179</u>	<u>\$ 457,179</u>	<u>\$ 964,336</u>	<u>\$ 11,522,781</u>

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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

***EXHIBIT 3A***

**RECONCILIATION OF THE FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
DECEMBER 31, 2009**

<b>Fund balances - total governmental funds (Exhibit 3)</b>		<b>\$</b>	<b>8,894,181</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.			41,470,153
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			1,583,139
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	\$ (2,625,000)		
Accrued interest payable	(44,772)		
Deferred debt issuance charges	28,088		
Discount on bonds	33,243		
Loans payable	(701,420)		
Net OPEB liabilities	(78,799)		
Compensated absences	(917,114)		
			(4,305,774)
<b>Net Assets of Governmental Activities (Exhibit 1)</b>		<b>\$</b>	<b><u>47,641,699</u></b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>General</u>	<u>Road and Bridge</u>
<b>Revenues</b>		
Taxes	\$ 3,288,406	\$ 742,618
Special assessments	127,725	5,608
Licenses and permits	15,201	-
Intergovernmental	1,413,505	4,702,157
Charges for services	745,781	278,882
Fines and forfeits	673	-
Gifts and contributions	1,130	-
Investment earnings	91,684	-
Miscellaneous	276,780	189,652
	<u>5,960,885</u>	<u>5,918,917</u>
<b>Total Revenues</b>	<b>\$ 5,960,885</b>	<b>\$ 5,918,917</b>
<b>Expenditures</b>		
<b>Current</b>		
General government	\$ 3,022,745	\$ -
Public safety	1,814,914	-
Highways and streets	-	5,769,028
Sanitation	-	-
Human services	-	-
Health	-	-
Culture and recreation	58,692	-
Conservation of natural resources	385,032	-
Economic development	162,072	-
<b>Intergovernmental</b>	-	157,351
<b>Capital outlay</b>	74,524	-
<b>Debt service</b>		
Principal	166,506	-
Interest	14,702	-
Administrative charges	-	-
	<u>5,699,187</u>	<u>5,926,379</u>
<b>Total Expenditures</b>	<b>\$ 5,699,187</b>	<b>\$ 5,926,379</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 261,698</b>	<b>\$ (7,462)</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>
\$ 1,657,827	\$ -	\$ 227,916	\$ 459,329	\$ 6,376,096
-	21,551	-	168,349	323,233
-	-	-	-	15,201
2,847,684	-	41,819	178,754	9,183,919
220,003	-	-	3,976	1,248,642
-	-	-	9,920	10,593
-	-	-	4,498	5,628
-	-	-	1,969	93,653
240,482	69,196	-	12,789	788,899
<b>\$ 4,965,996</b>	<b>\$ 90,747</b>	<b>\$ 269,735</b>	<b>\$ 839,584</b>	<b>\$ 18,045,864</b>
\$ -	\$ -	\$ -	\$ -	\$ 3,022,745
-	-	-	-	1,814,914
-	-	-	-	5,769,028
-	-	-	236,762	236,762
4,421,540	-	-	-	4,421,540
462,099	-	-	-	462,099
-	-	-	568,790	627,482
-	128,743	-	-	513,775
-	-	-	-	162,072
-	-	-	-	157,351
-	-	-	-	74,524
-	-	155,000	-	321,506
-	-	108,630	-	123,332
-	-	850	-	850
<b>\$ 4,883,639</b>	<b>\$ 128,743</b>	<b>\$ 264,480</b>	<b>\$ 805,552</b>	<b>\$ 17,707,980</b>
<b>\$ 82,357</b>	<b>\$ (37,996)</b>	<b>\$ 5,255</b>	<b>\$ 34,032</b>	<b>\$ 337,884</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>General</u>	<u>Road and Bridge</u>
<b>Other Financing Sources (Uses)</b>		
Transfers in	\$ 67,664	\$ 6,786
Transfers out	(9,945)	-
Proceeds from loan	39,776	-
	<u>97,495</u>	<u>6,786</u>
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 97,495</b>	<b>\$ 6,786</b>
<b>Net Change in Fund Balances</b>	<b>\$ 359,193</b>	<b>\$ (676)</b>
<b>Fund Balances - January 1</b>	<b>4,404,027</b>	<b>1,119,730</b>
<b>Increase (decrease) in reserved for inventories</b>	<u>-</u>	<u>(22,326)</u>
<b>Fund Balances - December 31</b>	<b><u>\$ 4,763,220</u></b>	<b><u>\$ 1,096,728</u></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>
\$ -	\$ -	\$ -	\$ 3,159	\$ 77,609
(67,645)	(19)	-	-	(77,609)
-	-	-	-	39,776
<u>\$ (67,645)</u>	<u>\$ (19)</u>	<u>\$ -</u>	<u>\$ 3,159</u>	<u>\$ 39,776</u>
\$ 14,712	\$ (38,015)	\$ 5,255	\$ 37,191	\$ 377,660
1,683,581	183,899	260,217	887,393	8,538,847
-	-	-	-	(22,326)
<u>\$ 1,698,293</u>	<u>\$ 145,884</u>	<u>\$ 265,472</u>	<u>\$ 924,584</u>	<u>\$ 8,894,181</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, 2009**

**Net change in fund balances - total governmental funds (Exhibit 4)** **\$ 377,660**

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	\$ 3,646,860	
Net book value of asset disposals	(7,297)	
Depreciation expense	<u>(1,428,998)</u>	2,210,565

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	\$ (18,275)	
Decrease in deferred revenue for grants and allotments	<u>(716,575)</u>	(734,850)

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	\$ (39,776)	
Repayment of debt principal	321,506	
Amortization of discount on debt and issuance costs	<u>(4,928)</u>	276,802

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	\$ (22,326)	
Change in accrued interest payable	2,133	
Change in OPEB liabilities	(36,264)	
Change in compensated absences	<u>92,372</u>	<u>35,915</u>

**Change in Net Assets of Governmental Activities (Exhibit 2)** **\$ 2,166,092**

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT 5*

**BUDGETARY COMPARISON STATEMENT  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 3,211,729	\$ 3,211,729	\$ 3,288,406	\$ 76,677
Special assessments	-	116,510	127,725	11,215
Licenses and permits	15,650	15,650	15,201	(449)
Intergovernmental	1,427,931	1,427,931	1,413,505	(14,426)
Charges for services	720,358	720,358	745,781	25,423
Fines and forfeits	-	-	673	673
Gifts and contributions	-	-	1,130	1,130
Investment earnings	190,000	190,000	91,684	(98,316)
Miscellaneous	87,810	87,810	276,780	188,970
<b>Total Revenues</b>	<b>\$ 5,653,478</b>	<b>\$ 5,769,988</b>	<b>\$ 5,960,885</b>	<b>\$ 190,897</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
County commissioners	\$ 199,721	\$ 199,721	\$ 198,681	\$ 1,040
Court administrator	51,200	51,200	40,499	10,701
Law library	14,000	14,000	23,255	(9,255)
County auditor	227,980	227,980	224,405	3,575
License center	84,151	84,151	84,722	(571)
County treasurer	135,056	135,056	132,257	2,799
Personnel	77,929	77,929	67,513	10,416
Central services	145,190	145,190	120,137	25,053
Elections	1,200	1,200	6,298	(5,098)
Information services	165,396	165,396	113,911	51,485
County attorney	248,398	248,398	236,331	12,067
Attorney's contingent	7,500	7,500	8,950	(1,450)
Victim witness	46,069	46,069	47,967	(1,898)
County recorder	176,197	176,197	164,934	11,263
County assessor	237,434	237,434	234,521	2,913
Building maintenance	343,815	343,815	352,485	(8,670)
Veterans service	108,841	108,841	100,778	8,063
Motor pool	-	-	62,571	(62,571)
Public transit	351,327	351,327	345,131	6,196
HUD recapture funds	-	-	12,743	(12,743)
Other general government	429,073	429,073	444,656	(15,583)
<b>Total general government</b>	<b>\$ 3,050,477</b>	<b>\$ 3,050,477</b>	<b>\$ 3,022,745</b>	<b>\$ 27,732</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**EXHIBIT 5  
(Continued)**

**BUDGETARY COMPARISON STATEMENT  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<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	\$ 1,132,467	\$ 1,132,467	\$ 1,093,945	\$ 38,522
Sheriff's contingent	5,000	5,000	8,400	(3,400)
Jail	460,262	460,262	449,907	10,355
E-911 and radio maintenance	13,000	13,000	19,905	(6,905)
County coroner	7,800	7,800	14,530	(6,730)
Court services	210,269	210,269	202,474	7,795
Emergency management	42,949	42,949	25,753	17,196
<b>Total public safety</b>	<b>\$ 1,871,747</b>	<b>\$ 1,871,747</b>	<b>\$ 1,814,914</b>	<b>\$ 56,833</b>
<b>Culture and recreation</b>				
County parks	\$ 21,500	\$ 21,500	\$ 24,792	\$ (3,292)
Historical society	33,900	33,900	33,900	-
<b>Total culture and recreation</b>	<b>\$ 55,400</b>	<b>\$ 55,400</b>	<b>\$ 58,692</b>	<b>\$ (3,292)</b>
<b>Conservation of natural resources</b>				
Environmental services	\$ 110,566	\$ 110,566	\$ 117,988	\$ (7,422)
County extension	87,983	87,983	88,775	(792)
Agricultural society/fair grounds	42,500	42,500	35,223	7,277
Soil and water conservation	55,600	55,600	55,600	-
CWP project	25,682	25,682	22,783	2,899
Local water plan block grant	71,000	71,000	64,663	6,337
<b>Total conservation of natural resources</b>	<b>\$ 393,331</b>	<b>\$ 393,331</b>	<b>\$ 385,032</b>	<b>\$ 8,299</b>
<b>Economic development</b>				
Employment and training	\$ 96,168	\$ 96,168	\$ 96,026	\$ 142
Economic development	64,000	64,000	66,046	(2,046)
<b>Total economic development</b>	<b>\$ 160,168</b>	<b>\$ 160,168</b>	<b>\$ 162,072</b>	<b>\$ (1,904)</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT 5  
(Continued)*

**BUDGETARY COMPARISON STATEMENT  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<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	\$ 70,000	\$ 70,000	\$ 74,524	\$ (4,524)
<b>Debt service</b>				
Principal	\$ -	\$ 171,742	\$ 166,506	\$ 5,236
Interest	\$ -	\$ 14,925	\$ 14,702	\$ 223
<b>Total Expenditures</b>	<b>\$ 5,601,123</b>	<b>\$ 5,787,790</b>	<b>\$ 5,699,187</b>	<b>\$ 88,603</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>				
	\$ 52,355	\$ (17,802)	\$ 261,698	\$ 279,500
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 67,645	\$ 67,645	\$ 67,664	\$ 19
Transfers out	-	-	(9,945)	(9,945)
Proceeds from loans	-	-	39,776	39,776
<b>Total Other Financing Sources     (Uses)</b>	<b>\$ 67,645</b>	<b>\$ 67,645</b>	<b>\$ 97,495</b>	<b>\$ 29,850</b>
<b>Net Change in Fund Balance</b>	<b>\$ 120,000</b>	<b>\$ 49,843</b>	<b>\$ 359,193</b>	<b>\$ 309,350</b>
<b>Fund Balance - January 1</b>	<b>4,404,027</b>	<b>4,404,027</b>	<b>4,404,027</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 4,524,027</b>	<b>\$ 4,453,870</b>	<b>\$ 4,763,220</b>	<b>\$ 309,350</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT 6*

**BUDGETARY COMPARISON STATEMENT  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 747,146	\$ 747,146	\$ 742,618	\$ (4,528)
Special assessments	-	-	5,608	5,608
Intergovernmental	4,095,074	4,095,074	4,702,157	607,083
Charges for services	240,000	240,000	278,882	38,882
Miscellaneous	168,000	168,000	189,652	21,652
<b>Total Revenues</b>	<b>\$ 5,250,220</b>	<b>\$ 5,250,220</b>	<b>\$ 5,918,917</b>	<b>\$ 668,697</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 426,501	\$ 426,501	\$ 433,670	\$ (7,169)
Maintenance	1,411,302	1,411,302	1,742,300	(330,998)
Construction	2,116,952	2,116,952	2,613,451	(496,499)
Equipment maintenance and shop	1,009,679	1,009,679	802,229	207,450
Other	212,600	212,600	177,378	35,222
<b>Total highways and streets</b>	<b>\$ 5,177,034</b>	<b>\$ 5,177,034</b>	<b>\$ 5,769,028</b>	<b>\$ (591,994)</b>
<b>Intergovernmental</b>				
Highways and streets	-	-	157,351	(157,351)
<b>Total Expenditures</b>	<b>\$ 5,177,034</b>	<b>\$ 5,177,034</b>	<b>\$ 5,926,379</b>	<b>\$ (749,345)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 73,186</b>	<b>\$ 73,186</b>	<b>\$ (7,462)</b>	<b>\$ (80,648)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	10,000	10,000	6,786	(3,214)
<b>Net Change in Fund Balance</b>	<b>\$ 83,186</b>	<b>\$ 83,186</b>	<b>\$ (676)</b>	<b>\$ (83,862)</b>
<b>Fund Balance - January 1</b>	<b>1,119,730</b>	<b>1,119,730</b>	<b>1,119,730</b>	<b>-</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>-</b>	<b>(22,326)</b>	<b>(22,326)</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,202,916</b>	<b>\$ 1,202,916</b>	<b>\$ 1,096,728</b>	<b>\$ (106,188)</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT 7*

**BUDGETARY COMPARISON STATEMENT  
HUMAN SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,697,656	\$ 1,697,656	\$ 1,657,827	\$ (39,829)
Intergovernmental	2,545,894	2,545,894	2,847,684	301,790
Charges for services	214,150	214,150	220,003	5,853
Miscellaneous	230,036	230,036	240,482	10,446
<b>Total Revenues</b>	<b>\$ 4,687,736</b>	<b>\$ 4,687,736</b>	<b>\$ 4,965,996</b>	<b>\$ 278,260</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 1,012,732	\$ 1,012,732	\$ 1,012,931	\$ (199)
Social services	3,141,815	3,141,815	3,408,609	(266,794)
<b>Total human services</b>	<b>\$ 4,154,547</b>	<b>\$ 4,154,547</b>	<b>\$ 4,421,540</b>	<b>\$ (266,993)</b>
<b>Health</b>				
Community health services	533,189	533,189	462,099	71,090
<b>Total Expenditures</b>	<b>\$ 4,687,736</b>	<b>\$ 4,687,736</b>	<b>\$ 4,883,639</b>	<b>\$ (195,903)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 82,357</b>	<b>\$ 82,357</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	-	-	(67,645)	(67,645)
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 14,712</b>	<b>\$ 14,712</b>
<b>Fund Balance - January 1</b>	<b>1,683,581</b>	<b>1,683,581</b>	<b>1,683,581</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,683,581</b>	<b>\$ 1,683,581</b>	<b>\$ 1,698,293</b>	<b>\$ 14,712</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT 8*

**BUDGETARY COMPARISON STATEMENT  
COUNTY DITCH SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<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	\$ -	\$ -	\$ 21,551	\$ 21,551
Miscellaneous	-	100,000	69,196	(30,804)
<b>Total Revenues</b>	<b>\$ -</b>	<b>\$ 100,000</b>	<b>\$ 90,747</b>	<b>\$ (9,253)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Other (ditch repairs)	-	130,000	128,743	1,257
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ (30,000)</b>	<b>\$ (37,996)</b>	<b>\$ (7,996)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	-	-	(19)	(19)
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ (30,000)</b>	<b>\$ (38,015)</b>	<b>\$ (8,015)</b>
<b>Fund Balance - January 1</b>	<b>183,899</b>	<b>183,899</b>	<b>183,899</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 183,899</b>	<b>\$ 153,899</b>	<b>\$ 145,884</b>	<b>\$ (8,015)</b>

**FIDUCIARY FUNDS**

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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

***EXHIBIT 9***

**STATEMENT OF FIDUCIARY NET ASSETS  
AGENCY FUNDS  
DECEMBER 31, 2009**

<b><u>Assets</u></b>	
Cash and pooled investments	<b><u>\$ 188,672</u></b>
<b><u>Liabilities</u></b>	
Accounts payable	\$ 24,470
Due to other governments	<u>164,202</u>
<b>Total Liabilities</b>	<b><u>\$ 188,672</u></b>

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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009**

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1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2009. 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**

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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**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

The 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**

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. 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, 2009, 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 2009 were \$91,684.

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**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

The County may invest in the following types of investments as authorized by Minn. Stat. §§ 118A.04 and 118A.05:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers’ acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (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**

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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 value at the date of donation.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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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**

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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.

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.

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.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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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.

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, 2009.

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
Road and Bridge Special Revenue Fund	\$ 5,926,379	\$ 5,177,034	\$ 749,345
Human Services Special Revenue Fund	4,883,639	4,687,736	195,903

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

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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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	\$ 9,063,933
Fiduciary funds	
Cash and pooled investments	
Agency funds	<u>188,672</u>
Total Cash and Investments	<u>\$ 9,252,605</u>

a. Deposits

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

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better and revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution 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, 2009, the County's deposits were not exposed to custodial credit risk.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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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 the County's 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, 2009, none of the County's investments were subject to custodial credit risk.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

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, 2009, all of the County's investment carrying value balance of \$601,939 was invested in the MAGIC Fund.

2. Receivables

Receivables as of December 31, 2009, for the County are as follows:

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Taxes - prior	\$ 166,891	\$ -
Special assessments - prior	26,675	-
Special assessments - noncurrent	552,307	400,639
Accounts	287,979	-
Accrued interest	5,578	-
Due from other governments	1,132,760	174,000
Total	<u>\$ 2,172,190</u>	<u>\$ 574,639</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, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 695,771	\$ -	\$ -	\$ 695,771
Construction in progress	26,073	23,201	-	49,274
	<u>\$ 721,844</u>	<u>\$ 23,201</u>	<u>\$ -</u>	<u>\$ 745,045</u>
Capital assets depreciated				
Buildings	\$ 7,889,289	\$ -	\$ -	\$ 7,889,289
Land improvements	49,128	-	-	49,128
Machinery, furniture, and equipment	5,440,074	279,869	161,708	5,558,235
Infrastructure	43,262,200	3,343,790	-	46,605,990
	<u>\$ 56,640,691</u>	<u>\$ 3,623,659</u>	<u>\$ 161,708</u>	<u>\$ 60,102,642</u>
Less: accumulated depreciation for				
Buildings	\$ 2,261,762	\$ 182,247	\$ -	\$ 2,444,009
Land improvements	17,176	2,457	-	19,633
Machinery, furniture, and equipment	3,722,885	338,564	154,411	3,907,038
Infrastructure	12,101,124	905,730	-	13,006,854
	<u>\$ 18,102,947</u>	<u>\$ 1,428,998</u>	<u>\$ 154,411</u>	<u>\$ 19,377,534</u>
Total capital assets depreciated, net	<u>\$ 38,537,744</u>	<u>\$ 2,194,661</u>	<u>\$ 7,297</u>	<u>\$ 40,725,108</u>
Capital Assets, Net	<u>\$ 39,259,588</u>	<u>\$ 2,217,862</u>	<u>\$ 7,297</u>	<u>\$ 41,470,153</u>

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

General government	\$ 208,923
Public safety	60,629
Highways and streets, including depreciation of infrastructure assets	1,112,788
Human services	44,269
Culture and recreation	1,325
Conservation of natural resources	1,064
	<u>1,064</u>
Total Depreciation Expense	<u>\$ 1,428,998</u>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2009, is as follows:

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Human Services	\$ 19,114	Reimbursement for services
	County Ditch	<u>900</u>	Loan interest
Total due to General Fund		<u>\$ 20,014</u>	
Road and Bridge	General	\$ 19,256	Reimbursement for services
	Human Services	782	Reimbursement for services
	County Ditch	<u>1,118</u>	Reimbursement for services
Total due to Road and Bridge Fund		<u>\$ 21,156</u>	
Total Due To/From Other Funds		<u><u>\$ 41,170</u></u>	

2. Advances To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	County Ditch	<u><u>\$ 60,000</u></u>

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.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

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

3. Interfund Transfers

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>	<u>Purpose</u>
General	Road and Bridge	\$ 6,786	Allocated interest
	County Library	<u>3,159</u>	Allocated interest
Total transfers out of General Fund		\$ 9,945	
Human Services	General	67,645	2009 rent
County Ditch	General	<u>19</u>	Ditch collection
Total Transfers In/Out		<u>\$ 77,609</u>	

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, 2009, the County recorded a liability of \$98,400 for the elected officials' termination benefits.

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 an 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 2009, 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 \$20,252 for 2009.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

1. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation

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

ARC	\$	57,101
Interest on net OPEB obligation		1,914
Adjustment to ARC		(2,499)
		_____
Annual OPEB cost (expense)	\$	56,516
Contributions made		(20,252)
		_____
Increase in net OPEB obligation	\$	36,264
Net OPEB obligation - January 1		42,535
		_____
Net OPEB obligation - December 31	\$	78,799

The County's annual OPEB cost, the percentage of annual OPEB contributed to the plan, and the net OPEB obligation for the years ended December 31, 2008 and 2009, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contributions	Percentage Contributed	Net OPEB Obligations
December 31, 2008	\$ 57,101	\$ 14,566	25.5%	\$ 42,535
December 31, 2009	56,516	20,252	35.8	78,799

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities

1. Other Postemployment Benefits (OPEB) (Continued)

Funded Status and Funding Progress

As of January 1, 2008, the most recent actuarial valuation date, the plan was 0.0 percent funded. The actuarial accrued liability for benefits was \$483,308, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued 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.

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.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

1. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

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 8 years. Both rates included a 3.0 percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2009, was 28 years.

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, 2009</u>
G.O. Capital Improvement Refunding Bonds, Series 2004A	2021	\$130,000 - \$190,000	3.25 - 4.50	\$ 2,115,000	\$ 1,870,000
G.O. Capital Improvement Bonds, Series 2005A	2026	\$35,000 - \$60,000	3.70 - 4.40	<u>845,000</u>	<u>755,000</u>
Total				<u>\$ 2,960,000</u>	\$ 2,625,000
Less: unamortized discount					<u>(33,243)</u>
Total General Obligation Bonds, Net					<u>\$ 2,591,757</u>

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

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Long-Term Debt (Continued)

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.

<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, 2009</u>
Watonwan Watershed Clean Water Partnership Project, SFR0047	2014	\$22,853	2.00	\$ 485,926	\$ 195,761
Watonwan Watershed Continuation Clean Water Partnership Project, SFR0108	2017	\$28,212	2.00	541,173	415,225
Watonwan Ag Best Management Loan Program	2020	\$2,119 - \$6,959	-	103,325	90,434
Total Loans				<u>\$ 1,130,424</u>	<u>\$ 701,420</u>

3. Debt Service Requirements

Debt service requirements at December 31, 2009, 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>
2010	\$ 165,000	\$ 103,470	\$ 97,100	\$ 11,770
2011	165,000	97,788	102,581	9,954
2012	170,000	91,788	104,748	8,101
2013	170,000	85,565	105,212	6,211
2014	180,000	78,965	84,566	4,283
2015 - 2019	1,030,000	277,029	202,643	5,770
2020 - 2024	630,000	70,983	4,570	-
2025 - 2029	115,000	5,170	-	-
Total	<u>\$ 2,625,000</u>	<u>\$ 810,758</u>	<u>\$ 701,420</u>	<u>\$ 46,089</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, 2009, 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	\$ 785,000	\$ -	\$ 30,000	\$ 755,000	\$ 35,000
G.O. Capital Improvement Refunding Bonds, Series 2004A	1,995,000	-	125,000	1,870,000	130,000
Less: unamortized discount on bonds	<u>(36,028)</u>	<u>-</u>	<u>(2,785)</u>	<u>(33,243)</u>	<u>-</u>
Total bonds payable	\$ 2,743,972	\$ -	\$ 152,215	\$ 2,591,757	\$ 165,000
Loans payable	828,150	39,776	166,506	701,420	97,100
Net OPEB liabilities	42,535	56,516	20,252	78,799	-
Compensated absences	<u>1,009,486</u>	<u>-</u>	<u>92,372</u>	<u>917,114</u>	<u>509,038</u>
Long-Term Liabilities	<u>\$ 4,624,143</u>	<u>\$ 96,292</u>	<u>\$ 431,345</u>	<u>\$ 4,289,090</u>	<u>\$ 771,138</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 Intergovernmental Trust (MCIT), formerly the Minnesota Counties Insurance Trust. 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

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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3. Detailed Notes on All Funds

D. Risk Management (Continued)

with coverage at \$430,000 per claim in 2009 and \$450,000 per claim in 2010. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

For all Public Employees Retirement Fund members 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.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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.

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.00 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.40 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2009:

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

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County's contributions for the years ending December 31, 2009, 2008, and 2007, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Public Employees Retirement Fund	\$ 322,851	\$ 304,356	\$ 277,615
Public Employees Police and Fire Fund	59,820	57,354	48,898
Public Employees Correctional Fund	20,043	18,027	17,033

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

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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4. Pension Plans

B. Defined Contribution Plan (Continued)

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2009, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 8,404	\$ 8,404
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

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.

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.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Red Rock Rural Water System (Continued)

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, 2008 (the most current information available), amounted to \$12,532,000. The Water System's net assets decreased by \$197,488 in 2008.

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

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 2009, 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.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

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 2009, Watonwan County made no contributions to the Collaborative. Any withdrawing party remains fiscally liable until the effective date of withdrawal. Should the Collaborative 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 2009, Watonwan County paid \$3,000 to the Board.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

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 for the Allied Radio Matrix for Emergency Response (ARMER), owned and operated by the State of Minnesota, and to enhance and improve interoperable public safety communications.

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. 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 \$78,781 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.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

The South Central Workforce Council Joint Powers Board is comprised of one representative from each of the participating County Boards. The Board is the local governmental body that appoints the Workforce Council members and is a full partner with them in overseeing area employment and training programs.

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 2009.

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 2009 is \$81,473. The proportionate share of the counties may change for years 2010 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.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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

F. Subsequent Event

In August 2010, the County Board authorized the refunding of the County's \$2,115,000 General Obligation Capital Improvement Refunding Bonds, Series 2004A. This bond issue becomes eligible to be refunded in 2011. There are 11 years of principal remaining at the existing interest rates from 3.60 percent to 4.50 percent and a principal balance of \$1,610,000. With the market conditions in effect at this time, it is desirable to refund these bonds. The result will change the repayment of the bond with interest rates from 0.85 percent to 3.25 percent; the estimated net present value savings to the County will be approximately \$123,000. The bond sale date will be September 20, 2010.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**Schedule 1**

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS  
DECEMBER 31, 2009

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2008	\$ -	\$ 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. Future notes will provide additional trend analysis to meet the three actuarial valuations requirement as the information becomes available.

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

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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**Statement 1**

**BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 229,455	\$ 229,455	\$ 227,916	\$ (1,539)
Intergovernmental	41,775	41,775	41,819	44
<b>Total Revenues</b>	<b>\$ 271,230</b>	<b>\$ 271,230</b>	<b>\$ 269,735</b>	<b>\$ (1,495)</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 155,000	\$ 155,000	\$ 155,000	\$ -
Interest	108,630	108,630	108,630	-
Administrative charges	1,000	1,000	850	150
<b>Total Expenditures</b>	<b>\$ 264,630</b>	<b>\$ 264,630</b>	<b>\$ 264,480</b>	<b>\$ 150</b>
<b>Net Change in Fund Balance</b>	<b>\$ 6,600</b>	<b>\$ 6,600</b>	<b>\$ 5,255</b>	<b>\$ (1,345)</b>
<b>Fund Balance - January 1</b>	<b>260,217</b>	<b>260,217</b>	<b>260,217</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 266,817</b>	<b>\$ 266,817</b>	<b>\$ 265,472</b>	<b>\$ (1,345)</b>

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**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.

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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**Statement 2**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2009**

	<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	\$ 528,537	\$ 403,491	\$ 932,028
Taxes receivable			
Prior	11,819	292	12,111
Special assessments receivable			
Prior	-	18,808	18,808
Accrued interest receivable	1,389	-	1,389
<b>Total Assets</b>	<b>\$ 541,745</b>	<b>\$ 422,591</b>	<b>\$ 964,336</b>
<b><u>Liabilities and Fund Balances</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 1,295	\$ -	\$ 1,295
Salaries payable	13,901	-	13,901
Deferred revenue - unavailable	10,267	14,289	24,556
<b>Total Liabilities</b>	<b>\$ 25,463</b>	<b>\$ 14,289</b>	<b>\$ 39,752</b>
<b>Fund Balances</b>			
Reserved for donations	\$ 152,732	\$ -	\$ 152,732
Unreserved			
Designated for cash flows	276,654	6,875	283,529
Designated for compensated absences	51,407	-	51,407
Undesignated	35,489	401,427	436,916
<b>Total Fund Balances</b>	<b>\$ 516,282</b>	<b>\$ 408,302</b>	<b>\$ 924,584</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 541,745</b>	<b>\$ 422,591</b>	<b>\$ 964,336</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, 2009**

	<b>Special Revenue Funds</b>		<b>Total</b>
	<b>County Library</b>	<b>Solid Waste</b>	
<b>Revenues</b>			
Taxes	\$ 448,359	\$ 10,970	\$ 459,329
Special assessments	-	168,349	168,349
Intergovernmental	120,506	58,248	178,754
Charges for services	3,976	-	3,976
Fines and forfeits	9,920	-	9,920
Gifts and contributions	4,498	-	4,498
Investment earnings	1,969	-	1,969
Miscellaneous	2,692	10,097	12,789
<b>Total Revenues</b>	<b>\$ 591,920</b>	<b>\$ 247,664</b>	<b>\$ 839,584</b>
<b>Expenditures</b>			
<b>Current</b>			
Sanitation	\$ -	\$ 236,762	\$ 236,762
Culture and recreation	568,790	-	568,790
<b>Total Expenditures</b>	<b>\$ 568,790</b>	<b>\$ 236,762</b>	<b>\$ 805,552</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 23,130</b>	<b>\$ 10,902</b>	<b>\$ 34,032</b>
<b>Other Financing Sources (Uses)</b>			
Transfers in	3,159	-	3,159
<b>Net Change in Fund Balances</b>	<b>\$ 26,289</b>	<b>\$ 10,902</b>	<b>\$ 37,191</b>
<b>Fund Balances - January 1</b>	<b>489,993</b>	<b>397,400</b>	<b>887,393</b>
<b>Fund Balances - December 31</b>	<b>\$ 516,282</b>	<b>\$ 408,302</b>	<b>\$ 924,584</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**Statement 4**

**BUDGETARY COMPARISON SCHEDULE  
COUNTY LIBRARY SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 451,508	\$ 451,508	\$ 448,359	\$ (3,149)
Intergovernmental	122,114	122,114	120,506	(1,608)
Charges for services	4,500	4,500	3,976	(524)
Fines and forfeits	9,000	9,000	9,920	920
Gifts and contributions	-	-	4,498	4,498
Investment earnings	4,000	4,000	1,969	(2,031)
Miscellaneous	-	-	2,692	2,692
<b>Total Revenues</b>	<b>\$ 591,122</b>	<b>\$ 591,122</b>	<b>\$ 591,920</b>	<b>\$ 798</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Culture and recreation</b>				
County library	606,360	606,360	568,790	37,570
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (15,238)</b>	<b>\$ (15,238)</b>	<b>\$ 23,130</b>	<b>\$ 38,368</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	3,159	3,159
<b>Net Change in Fund Balance</b>	<b>\$ (15,238)</b>	<b>\$ (15,238)</b>	<b>\$ 26,289</b>	<b>\$ 41,527</b>
<b>Fund Balance - January 1</b>	<b>489,993</b>	<b>489,993</b>	<b>489,993</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 474,755</b>	<b>\$ 474,755</b>	<b>\$ 516,282</b>	<b>\$ 41,527</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*Statement 5*

**BUDGETARY COMPARISON SCHEDULE  
SOLID WASTE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 10,821	\$ 10,821	\$ 10,970	\$ 149
Special assessments	184,375	184,375	168,349	(16,026)
Intergovernmental	57,929	57,929	58,248	319
Miscellaneous	15,250	15,250	10,097	(5,153)
<b>Total Revenues</b>	<b>\$ 268,375</b>	<b>\$ 268,375</b>	<b>\$ 247,664</b>	<b>\$ (20,711)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Sanitation</b>				
SCORE	269,181	269,181	236,762	32,419
<b>Net Change in Fund Balance</b>	<b>\$ (806)</b>	<b>\$ (806)</b>	<b>\$ 10,902</b>	<b>\$ 11,708</b>
<b>Fund Balance - January 1</b>	<b>397,400</b>	<b>397,400</b>	<b>397,400</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 396,594</b>	<b>\$ 396,594</b>	<b>\$ 408,302</b>	<b>\$ 11,708</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.

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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*Statement 6*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>AGENCY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 12,455	\$ 1,859,562	\$ 1,854,527	\$ 17,490
<b><u>Liabilities</u></b>				
Due to other governments	\$ 12,455	\$ 1,859,562	\$ 1,854,527	\$ 17,490
 <b><u>VISION FOR FAMILY AND COMMUNITY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 87,238	\$ 82,211	\$ 147,989	\$ 21,460
<b><u>Liabilities</u></b>				
Due to other governments	\$ 87,238	\$ 82,211	\$ 147,989	\$ 21,460
 <b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 156,608	\$ 12,301,967	\$ 12,333,323	\$ 125,252
<b><u>Liabilities</u></b>				
Due to other governments	\$ 156,608	\$ 12,301,967	\$ 12,333,323	\$ 125,252

**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, 2009**

	<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	\$ 24,470	\$ 583	\$ 583	\$ 24,470
	\$ 24,470	\$ 583	\$ 583	\$ 24,470
<b><u>Liabilities</u></b>				
Accounts payable	\$ 24,470	\$ 583	\$ 583	\$ 24,470
	\$ 24,470	\$ 583	\$ 583	\$ 24,470
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 280,771	\$ 14,244,323	\$ 14,336,422	\$ 188,672
	\$ 280,771	\$ 14,244,323	\$ 14,336,422	\$ 188,672
<b><u>Liabilities</u></b>				
Accounts payable	\$ 24,470	\$ 583	\$ 583	\$ 24,470
Due to other governments	256,301	14,243,740	14,335,839	164,202
	\$ 280,771	\$ 14,244,323	\$ 14,336,422	\$ 188,672
<b>Total Liabilities</b>	<b>\$ 280,771</b>	<b>\$ 14,244,323</b>	<b>\$ 14,336,422</b>	<b>\$ 188,672</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

Schedule 2

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2009**

**Shared Revenue**

**State**

Highway users tax	\$ 3,602,448
PERA rate reimbursement	19,906
Disparity reduction aid	5,071
Police aid	54,009
County program aid	963,870
Market value credit	587,028
Enhanced 911	84,813
	84,813

**Total shared revenue** **\$ 5,317,145**

**Reimbursement for Services**

**State**

Minnesota Department of Human Services	\$ 563,135
	563,135

**Payments**

**Local**

Local contributions	\$ 525,972
	525,972

**Grants**

**State**

Minnesota Department/Board of	
Public Safety	\$ 44,962
Health	64,539
Natural Resources	11,135
Trial Courts	1,722
Human Services	628,622
Corrections	21,156
Veterans Affairs	9,000
Transportation	374,029
Water and Soil Resources	61,648
Pollution Control Agency	55,475
Peace Officer Standards and Training Board	2,378
	2,378

**Total state** **\$ 1,274,666**

**Federal**

Department of	
Agriculture	\$ 194,394
Justice	5,000
Transportation	261,099
Health and Human Services	1,029,342
Homeland Security	13,166
	13,166

**Total federal** **\$ 1,503,001**

**Total state and federal grants** **\$ 2,777,667**

**Total Intergovernmental Revenue** **\$ 9,183,919**

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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*Schedule 3*

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

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

- A. Our report expresses unqualified opinions on the basic financial statements of Watonwan County.
- B. A significant deficiency in internal control was disclosed by the audit of financial statements of Watonwan County and is 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*." It was not a material weakness.
- 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:

State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) Cluster	
State Administrative Matching Grants for SNAP	CFDA #10.561
State Administrative Matching Grants for SNAP - ARRA	CFDA #10.561
Highway Planning and Construction	CFDA #20.205
Child Support Enforcement Cluster	
Child Support Enforcement	CFDA #93.563
Child Support Enforcement - ARRA	CFDA #93.563
Medical Assistance Program	CFDA #93.778

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

I. Watonwan County was not determined to be a low-risk auditee.

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

**INTERNAL CONTROL**

**PREVIOUSLY REPORTED ITEM NOT RESOLVED**

06-2 **Audit Adjustments**

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis.

During our audit, we proposed audit adjustments that 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.

The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

We recommend that the County review internal controls currently in place and design and implement procedures to improve internal controls over financial reporting which will prevent, or detect and correct, misstatements in the financial statements. The updated controls should include review of the balances and supporting documentation by a qualified individual to identify potential misstatements.

**Client's Response:**

*We continue to improve our internal controls and detect any misstatements.*

PREVIOUSLY REPORTED ITEM RESOLVED

**Preparation of Financial Statements (06-1)**

The County lacked internal control over preparation of the financial statements in accordance with generally accepted accounting principles.

**Resolution**

The County continues to obtain the training and experience to internally prepare its annual financial statements. The County prepared draft copies of the financial statements of each major fund for 2009.

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

None.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

09-1 Ditch Fund Deficit Cash Balance

The County is authorized by Minn. Stat. § 103E.655, subd. 2, to make loans from ditch systems with a surplus or from the General Fund to a ditch system with insufficient cash to pay expenditures. This statute requires that the fund from which the funds were borrowed be repaid with interest. Allowing a ditch fund to maintain a deficit cash balance, in effect, constitutes an interest-free loan from other funds of the County and, as such, is in noncompliance with Minnesota law.

At December 31, 2009, one ditch system had a negative cash balance totaling \$38,419, and one ditch system had a negative fund balance totaling \$68,896.

We recommend that the County eliminate cash and fund balance deficits in individual ditches by borrowing from an eligible fund with a surplus cash balance, as permitted by statute, or by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1, which permits the creation of a repair fund to provide for the repair and maintenance costs of a ditch system.

Client's Response:

*The negative cash balance and negative fund balance is the same ditch, County Ditch #62. There is currently an appeal in District Court to overturn a decision to dismiss a ditch improvement petition. Once that process proceeds through the Courts, full payment will be made along with interest costs to the General Fund.*

B. OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The intention of this standard is to enhance the usefulness of information included in the financial report about fund balance through clearer fund balance classifications that can be more consistently applied, as well as to clarify existing governmental fund type definitions.

Fund Balance Reporting

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

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

- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - spendable amounts not contained in the other classifications.

Governmental Fund Type Definitions

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in Statement 54. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The requirements of GASB Statement 54 are effective for the County for the year ending December 31, 2011.

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

Board of County Commissioners  
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, 2009, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 23, 2010. 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.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified a deficiency in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as item 06-2, that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### 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 seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in tax increment financing because the County has no tax increment financing.

The results of our tests indicate that, for the items tested, Watonwan County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 09-1.

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

Watonwan County's written responses to the internal control and legal compliance 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*

REBECCA OTTO  
STATE AUDITOR

September 23, 2010

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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

Board of County Commissioners  
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, 2009. 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, 2009.

### Internal Control Over Compliance

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

### 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, 2009, and have issued our report thereon dated September 23, 2010. Our audit was performed for the purpose of forming opinions on the County's financial statements that collectively comprise 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

September 23, 2010

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*Schedule 4*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

<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	\$ 87,675
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) Cluster		
State Administrative Matching Grants for SNAP	10.561	104,987
State Administrative Matching Grants for SNAP - ARRA	10.561	1,432
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>\$ 194,394</u></b>
<b>U.S. Department of Justice</b>		
Passed Through Minnesota Department of Public Safety Edward Byrne Memorial Justice Assistance Grant Program	16.738	<b><u>\$ 5,000</u></b>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 161,605
Formula Grants for Other Than Urbanized Areas	20.509	97,924
Passed Through the City of New Ulm State and Community Highway Safety	20.600	<u>1,570</u>
<b>Total U.S. Department of Transportation</b>		<b><u>\$ 261,099</u></b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Health Public Health Emergency Preparedness	93.069	\$ 25,280
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	18,000
Temporary Assistance for Needy Families	93.558	21,178
Maternal and Child Health Services Block Grant to the States	93.994	18,138

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

***Schedule 4  
(Continued)***

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Health and Human Services (Continued)</b>		
Passed Through Minnesota Department of Human Services		
Temporary Assistance for Needy Families	93.558	109,408
Child Support Enforcement Cluster		
Child Support Enforcement	93.563	229,007
Child Support Enforcement - ARRA	93.563	32,539
Refugee and Entrant Assistance - State-Administered Programs	93.566	238
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	5,517
Child Welfare Services - State Grants	93.645	47
Foster Care - Title IV-E Cluster		
Foster Care - Title IV-E	93.658	99,659
Foster Care - Title IV-E - ARRA	93.658	6,746
Social Services Block Grant	93.667	91,112
Chafee Foster Care Independence Program	93.674	27,222
Medical Assistance Program	93.778	325,354
Block Grants for Community Mental Health Services	93.958	306
		<b>\$ 1,009,751</b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Public Safety		
Emergency Management Performance Grants	97.042	<b>\$ 13,166</b>
		<b>\$ 1,483,410</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

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1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Watonwan County. The County's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Watonwan County under programs of the federal government for the year ended December 31, 2009. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Watonwan County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Watonwan County.

3. Summary of Significant Accounting Policies

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

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 1,503,001
Deferred in 2008, recognized as revenue in 2009	
Medical Assistance Program	<u>(19,591)</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 1,483,410</u>

5. Subrecipients

During 2009, the County did not pass any federal money to subrecipients.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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6. American Recovery and Reinvestment Act

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