

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

WATONWAN COUNTY
ST. JAMES, MINNESOTA

YEAR ENDED DECEMBER 31, 2013

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, 2013



**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
2013

Office	Name	Term Expires
Commissioners		
1st District	Raymond Gustafson	January 2017
2nd District	Mark Rentz	January 2015
3rd District	William Berg	January 2017
4th District	Scott Sanders*	January 2015
5th District	John Baerg	January 2017
Officers		
Elected		
Attorney	Stephen Lindee	January 2015
Auditor	Donald Kuhlman	January 2015
Recorder	Joy Sing	January 2015
Sheriff	Gary Menssen	January 2015
Treasurer	Donald Kuhlman**	January 2015
Appointed		
Assessor	Jason McCaslin	January 2017
Court Administrator (State)	Kelly Iverson	Indefinite
Coroner	Dr. Lindy Eatwell	January 2015
Highway Engineer	Roger Risser	May 2015
Probation Officer	Paul Harris	Indefinite
Veterans Service Officer	Deb Grote	Indefinite
Human Services Director	Richard Collins***	January 2014

*2013 Chair

**Treasurer retired in February 2013, duties were assigned to County Auditor

***Replaced by David Christianson in 2014

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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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An

audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Watonwan County as of December 31, 2013, and the respective changes in financial position thereof and the respective budgetary comparisons of the General Fund, Road and Bridge Special Revenue Fund, and Human Services Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2013 the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which represent changes in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Watonwan County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2014, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Watonwan County's internal control over financial reporting and compliance.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 12, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013
(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, 2013. 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 2013 by \$55,239,059. Of this amount, \$7,621,032 (unrestricted net position) may be used to meet Watonwan County's ongoing obligations to citizens and creditors.
- Watonwan County's total net position increased by \$1,578,133 in 2013.
- At the close of 2013, Watonwan County's governmental funds reported combined ending fund balances of \$11,388,916, of which \$4,151,960 is unassigned and is available for spending at the County's discretion.
- At the close of 2013, unassigned fund balance for the General Fund was \$4,238,298, or 60.6 percent, of total General Fund expenditures.
- Watonwan County's total bonds and capital notes payable increased by \$1,195,000. There were payments of \$35,000, \$150,000, and \$40,000 on the G.O. Capital Improvement Bonds, Series 2005A; the G.O. Capital Improvement Refunding Bonds, Series 2010A; and the G.O. Capital Notes, Series 2011, respectively. In December, the County issued \$1,420,000 of G.O. Capital Improvement Plan Bonds, Series 2013A. The proceeds will be used for improvements to the Human Services Building, Courthouse property, the Resource Center, and buildings at the County Fairgrounds.

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 position presents information on all of Watonwan County's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 four major funds and three nonmajor funds. The major funds are the General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, and the Debt Service Fund. The nonmajor funds are the County Library Special Revenue Fund, County Ditch Special Revenue Fund, and the Solid Waste Special Revenue Fund. Information is presented separately for the major funds and in total for the nonmajor funds on Exhibits 3 and 5.

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 9, and Watowan County's fiduciary funds are on Exhibit 10.

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 (Exhibit A-1). In addition, the County also provides supplementary information on intergovernmental revenue and expenditures of federal awards (Exhibits E-1 and E-2).

Watonwan 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 position serves as a useful indicator of the County's financial position. Watonwan County's assets exceeded liabilities by \$55,239,059 at the close of 2013. The largest portion of Watonwan County's net position (79.1 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 Position

	<u>2012</u>	<u>2013</u>
Assets		
Current and other assets	\$ 13,715,414	\$ 15,364,374
Capital assets	<u>45,573,860</u>	<u>46,670,208</u>
Total Assets	<u>\$ 59,289,274</u>	<u>\$ 62,034,582</u>
Liabilities		
Long-term liabilities outstanding	\$ 4,600,931	\$ 5,677,269
Other liabilities	<u>1,027,417</u>	<u>1,118,254</u>
Total Liabilities	<u>\$ 5,628,348</u>	<u>\$ 6,795,523</u>
Net Position		
Net investment in capital assets	\$ 43,288,736	\$ 43,701,904
Restricted	2,076,884	3,916,123
Unrestricted	<u>8,295,306</u>	<u>7,621,032</u>
Total Net Position	<u>\$ 53,660,926</u>	<u>\$ 55,239,059</u>

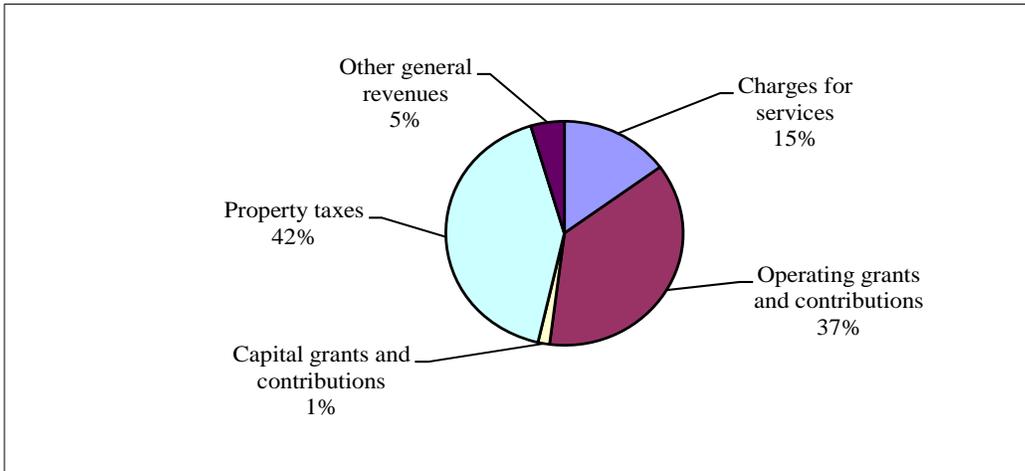
The unrestricted net position amount of \$7,621,032 as of December 31, 2013, may be used to meet the County's ongoing obligations to citizens and creditors.

Governmental Activities

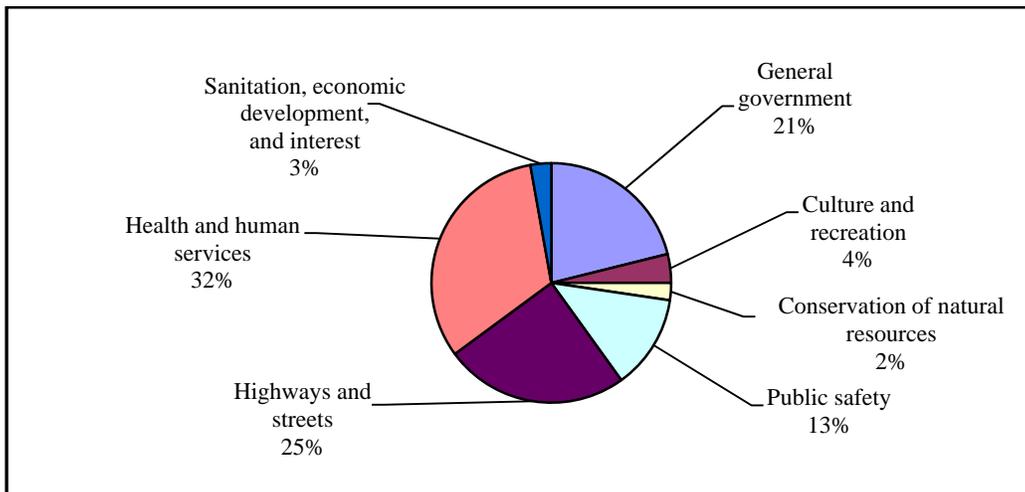
The following table summarizes the changes in net position for 2013.

	<u>2012</u>	<u>2013</u>
Revenues		
Program revenues		
Charges for services	\$ 2,330,762	\$ 2,669,042
Operating grants and contributions	6,469,984	6,615,453
Capital grants and contributions	527,593	282,100
General revenues		
Property taxes	7,221,649	7,469,716
Other	1,001,895	818,353
Total Revenues	<u>\$ 17,551,883</u>	<u>\$ 17,854,664</u>
Expenses		
General government	\$ 3,765,321	\$ 3,513,417
Public safety	2,018,682	2,061,708
Highways and streets	4,615,620	4,014,223
Sanitation	219,863	223,583
Human services	4,497,194	4,745,007
Health	478,091	481,468
Culture and recreation	642,158	627,462
Conservation of natural resources	437,482	377,786
Economic development	108,918	106,555
Interest	86,642	125,322
Total Expenses	<u>\$ 16,869,971</u>	<u>\$ 16,276,531</u>
Increase in Net Position	\$ 681,912	\$ 1,578,133
Net Position - January 1	<u>52,979,014</u>	<u>53,660,926</u>
Net Position - December 31	<u>\$ 53,660,926</u>	<u>\$ 55,239,059</u>

Sources of County Revenues



Where County Funds Are Spent



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, unassigned 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 \$11,388,916. Of this amount, \$4,151,960 constitutes unassigned fund balance. The remainder of fund balance is nonspendable, restricted, committed, or assigned to indicate that it is not available for new spending.

The General Fund is the chief operating fund of Watonwan County. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$4,238,298, while the total fund balance was \$5,430,748. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to annual expenditures. Unassigned fund balance represents 60.6 percent of total General Fund expenditures for 2013, while total fund balance represents 77.7 percent of total General Fund expenditures. In 2013, the total fund balance in the General Fund increased by \$580,938, with unassigned fund balances decreasing by \$21,259 and restricted fund balances increasing by \$602,197. The primary reason for the increase in restricted fund balance and fund balance was due to the sale of the capital improvement bonds in the amount of \$1,420,000, \$567,912 of which remained unspent at year-end which is reflected in the restricted fund balance and fund balance.

The Road and Bridge Special Revenue Fund's fund balance decreased by \$42,207 in 2013.

In 2013, the Human Services Special Revenue Fund's fund balance decreased by \$250,527. There was a \$100,000 budgeted use of fund balance. There were additional expenses due to the relocation of staff during the renovation of the Human Services building. Relocation expenses included \$36,000 paid for rental of Marian Hall and \$25,000 for cubicles. Correctional out-of-home placement costs were over budget by \$90,000.

General Fund Budgetary Highlights

There were insignificant budget variances across the board for operational revenues and expenditures in the General Fund, with total revenues exceeding budget by \$342,441, or about 5.98 percent. Total expenditures exceeded budget by \$114,682, or about 1.86 percent, when the \$806,110 of capital outlay variance is excluded. The capital outlay variance came from costs incurred to renovate the Human Services building which was undetermined at the time budgets were set. The renovation was necessary to ensure the safety and welfare of County staff and extend the useful life of the facility. In addition, the annex roofs were repaired on the Courthouse. These costs were covered by capital improvement plan bonds in the amount of \$1,420,000 which was also unbudgeted. The items mentioned resulted in a net change to the General Fund's fund balance of \$580,938.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2013, amounts to \$46,670,208 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The total increase in the County's investment in capital assets for the current fiscal year was \$1,096,348, of which a net increase in the investment in infrastructure accounted for \$778,381 of that amount.

	Governmental Capital Assets (Net of Depreciation)	
	2012	2013
Land	\$ 686,771	\$ 686,771
Construction in progress	237,790	-
Land improvements	22,126	19,670
Buildings and improvements	4,934,500	5,590,079
Machinery, furniture, and equipment	1,775,510	1,678,144
Infrastructure	37,917,163	38,695,544
Total	<u>\$ 45,573,860</u>	<u>\$ 46,670,208</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 general obligation bonds and notes outstanding of \$4,138,022, which is backed by the full faith and credit of the government.

	Governmental Outstanding Debt	
	2012	2013
General Obligation Bonds and Notes	<u>\$ 2,913,882</u>	<u>\$ 4,138,022</u>

Watsonwan County's bond rating was upgraded by Moody's from an "A1" to an "Aa3" on February 24, 2014. Standard and Poor's Ratings Service assigned a rating of "AA-" to the \$1,420,000 General Obligation Capital Improvement Plan Bonds issued in December 2013.

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 2013, 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 5.1 percent as of the end of 2013. This is slightly higher than the state-wide rate of 4.7 percent.
- Farm land values continued to increase in 2013, reflecting the profitability in crop farming at this time. Home values remained constant.

At the end of 2013, Watonwan County set its 2014 revenue and expenditure budgets, budgeting revenues and expenditures of \$19,503,784 and \$19,831,580, 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.

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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 POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2013**

Assets

Cash and pooled investments	\$	11,053,327
Cash with fiscal agent		585,732
Taxes receivable		
Prior - net		116,643
Special assessments receivable		
Prior - net		20,412
Noncurrent		360,713
Accounts receivable		270,532
Accrued interest receivable		7,023
Due from other governments		2,684,593
Inventories		265,399
Capital assets		
Non-depreciable		686,771
Depreciable - net of accumulated depreciation		45,983,437
		45,983,437
Total Assets	\$	62,034,582

Liabilities

Accounts payable	\$	300,693
Salaries payable		304,208
Contracts payable		278,785
Due to other governments		164,416
Accrued interest payable		30,023
Unearned revenue		40,129
Long-term liabilities		
Due within one year		831,062
Due in more than one year		4,846,207
		4,846,207
Total Liabilities	\$	6,795,523

Net Position

Net investment in capital assets	\$	43,701,904
Restricted for		
General government		199,682
Public safety		126,733
Highways and streets		1,927,304
Culture and recreation		458,424
Conservation of natural resources		309,980
Capital projects		567,912
Economic development		22,941
Debt service		303,147
Unrestricted		7,621,032
		7,621,032
Total Net Position	\$	55,239,059

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

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Program Revenues			Net (Expense)
Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
<u>Functions/Programs</u>				
Primary government				
Governmental activities				
General government	\$ 3,513,417	\$ 767,827	\$ 363,882	\$ -
Public safety	2,061,708	199,872	222,810	-
Highways and streets	4,014,223	600,800	3,289,819	282,100
Sanitation	223,583	184,180	-	-
Human services	4,745,007	580,957	2,086,908	-
Health	481,468	51,257	276,101	-
Culture and recreation	627,462	24,429	316,935	-
Conservation of natural resources	377,786	192,513	58,998	-
Economic development	106,555	67,207	-	-
Interest	125,322	-	-	-
Total Governmental Activities	\$ 16,276,531	\$ 2,669,042	\$ 6,615,453	\$ 282,100
 General Revenues				
Property taxes				\$ 7,469,716
Mortgage registry and deed tax				5,402
Grants and contributions not restricted to specific programs				636,512
Unrestricted investment earnings				60,322
Miscellaneous				116,117
Total general revenues				\$ 8,288,069
Change in net position				\$ 1,578,133
Net Position - January 1				53,660,926
Net Position - December 31				\$ 55,239,059

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>						
Cash and pooled investments	\$ 5,845,736	\$ 1,442,936	\$ 2,067,967	\$ 302,055	\$ 1,394,633	\$ 11,053,327
Cash with fiscal agent	-	-	-	585,732	-	585,732
Taxes receivable						
Prior	57,885	15,119	30,995	4,193	8,451	116,643
Special assessments						
Prior	4,026	-	-	-	16,386	20,412
Noncurrent	360,713	-	-	-	-	360,713
Accounts receivable	35,361	16,085	219,086	-	-	270,532
Accrued interest receivable	5,362	185	-	-	1,476	7,023
Due from other funds	11,247	40,108	5,695	-	793	57,843
Due from other governments	62,612	2,062,196	422,683	135,000	2,102	2,684,593
Inventories	-	265,399	-	-	-	265,399
Total Assets	\$ 6,382,942	\$ 3,842,028	\$ 2,746,426	\$ 1,026,980	\$ 1,423,841	\$ 15,422,217
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>						
Liabilities						
Accounts payable	\$ 114,725	\$ 41,981	\$ 137,259	\$ -	\$ 6,728	\$ 300,693
Salaries payable	133,034	48,103	108,851	-	14,220	304,208
Contracts payable	165,080	113,705	-	-	-	278,785
Due to other funds	41,603	-	2,960	-	13,280	57,843
Due to other governments	52,286	41,066	66,604	-	4,460	164,416
Unearned revenue	40,129	-	-	-	-	40,129
Total Liabilities	\$ 546,857	\$ 244,855	\$ 315,674	\$ -	\$ 38,688	\$ 1,146,074
Deferred Inflows of Resources						
Unavailable revenue	\$ 405,337	\$ 1,958,867	\$ 366,856	\$ 138,101	\$ 18,066	\$ 2,887,227

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Liabilities, Deferred Inflows of Resources, and Fund Balance</u>						
(Continued)						
Fund Balances						
Nonspendable						
Inventories	\$ -	\$ 265,399	\$ -	\$ -	\$ -	\$ 265,399
Restricted for						
Recorder's equipment	83,904	-	-	-	-	83,904
Technology fees	88,315	-	-	-	-	88,315
E-911	120,272	-	-	-	-	120,272
Sheriff's contingency	6,461	-	-	-	-	6,461
HRA special benefit levy	22,941	-	-	-	-	22,941
ISTS loan repayments	275,182	-	-	-	-	275,182
Donations - veterans' van	27,463	-	-	-	-	27,463
Ditch maintenance and repair	-	-	-	-	224,564	224,564
Donations - library	-	-	-	-	458,424	458,424
Capital projects	567,912	-	-	-	-	567,912
Debt service	-	-	-	888,879	-	888,879
Committed for						
Library operations	-	-	-	-	458,121	458,121
Assigned to						
Road and bridge	-	1,372,907	-	-	-	1,372,907
Human services	-	-	2,063,896	-	-	2,063,896
Solid waste	-	-	-	-	312,316	312,316
Unassigned	4,238,298	-	-	-	(86,338)	4,151,960
Total Fund Balances	\$ 5,430,748	\$ 1,638,306	\$ 2,063,896	\$ 888,879	\$ 1,367,087	\$ 11,388,916
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 6,382,942	\$ 3,842,028	\$ 2,746,426	\$ 1,026,980	\$ 1,423,841	\$ 15,422,217

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF THE FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2013**

Fund balances - total governmental funds (Exhibit 3)		\$ 11,388,916
Amounts reported for governmental activities in the statement of net position 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.		46,670,208
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds.		2,887,227
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	\$ (4,010,000)	
Accrued interest payable	(30,023)	
Discount on bonds	22,091	
Premium on bonds	(30,113)	
General obligation capital notes	(120,000)	
Loans payable	(552,751)	
Net OPEB liabilities	(109,094)	
Compensated absences	(877,402)	
	(5,707,292)	(5,707,292)
Net Position of Governmental Activities (Exhibit 1)		<u>\$ 55,239,059</u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues						
Taxes	\$ 3,883,566	\$ 909,718	\$ 1,979,747	\$ 263,340	\$ 545,454	\$ 7,581,825
Special assessments	115,119	-	-	-	234,376	349,495
Licenses and permits	18,834	-	-	-	-	18,834
Intergovernmental	980,969	2,828,132	2,336,217	22,319	58,091	6,225,728
Charges for services	725,332	279,200	436,712	-	3,508	1,444,752
Fines and forfeits	1,203	-	-	-	10,076	11,279
Gifts and contributions	7,441	-	-	-	305,972	313,413
Investment earnings	60,322	-	-	1,728	7,143	69,193
Miscellaneous	274,209	331,704	199,448	-	95,284	900,645
Total Revenues	\$ 6,066,995	\$ 4,348,754	\$ 4,952,124	\$ 287,387	\$ 1,259,904	\$ 16,915,164
Expenditures						
Current						
General government	\$ 3,393,724	\$ -	\$ -	\$ -	\$ -	\$ 3,393,724
Public safety	2,091,129	-	-	-	-	2,091,129
Highways and streets	-	4,159,539	-	-	-	4,159,539
Sanitation	-	-	-	-	222,917	222,917
Human services	-	-	4,723,449	-	-	4,723,449
Health	-	-	479,202	-	-	479,202
Culture and recreation	52,089	-	-	-	578,858	630,947
Conservation of natural resources	342,746	-	-	-	42,888	385,634
Economic development	107,694	-	-	-	-	107,694
Intergovernmental	-	199,034	-	-	-	199,034
Capital outlay	833,110	-	-	-	-	833,110
Debt service						
Principal	116,661	-	-	225,000	-	341,661
Interest	6,211	-	-	74,098	-	80,309
Bond issuance costs	45,346	-	-	-	-	45,346
Administrative charges	-	-	-	110	-	110
Total Expenditures	\$ 6,988,710	\$ 4,358,573	\$ 5,202,651	\$ 299,208	\$ 844,663	\$ 17,693,805

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**EXHIBIT 5
(Continued)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Excess of Revenues Over (Under) Expenditures	\$ (921,715)	\$ (9,819)	\$ (250,527)	\$ (11,821)	\$ 415,241	\$ (778,641)
Other Financing Sources (Uses)						
Transfers in	\$ -	\$ 4,461	\$ -	\$ -	\$ 793	\$ 5,254
Transfers out	(5,254)	-	-	-	-	(5,254)
Proceeds from loan	62,561	-	-	-	-	62,561
Bonds issued	1,418,704	-	-	1,296	-	1,420,000
Premium on bonds issued	26,642	-	-	-	-	26,642
Total Other Financing Sources (Uses)	\$ 1,502,653	\$ 4,461	\$ -	\$ 1,296	\$ 793	\$ 1,509,203
Net Change in Fund Balances	\$ 580,938	\$ (5,358)	\$ (250,527)	\$ (10,525)	\$ 416,034	\$ 730,562
Fund Balances - January 1	\$ 4,849,810	\$ 1,680,513	\$ 2,314,423	\$ 899,404	\$ 951,053	\$ 10,695,203
Increase (decrease) in inventories	-	(36,849)	-	-	-	(36,849)
Fund Balances - December 31	\$ 5,430,748	\$ 1,638,306	\$ 2,063,896	\$ 888,879	\$ 1,367,087	\$ 11,388,916

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 730,562

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.

Capital outlay expenditures	\$ 2,696,405	
Net book value of asset disposals	(1,956)	
Depreciation expense	<u>(1,598,101)</u>	1,096,348

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	\$ (48,815)	
Increase in deferred revenue for grants and allotments	<u>988,315</u>	939,500

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 position. Also, governmental funds report the net effect of premiums, discounts, and similar items when debt is first issued; whereas, these amounts are deferred and amortized over the life of the debt in the statement of activities.

Proceeds of new debt		
Loans payable	\$ (62,561)	
General obligation refunding bonds	(1,420,000)	
Premium on bonds	<u>(26,642)</u>	(1,509,203)
Repayment of debt principal		341,661
Amortization of premium/discount on debt		(2,498)
Deferred charges not previously expensed		(78,031)

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	\$ (36,849)	
Change in accrued interest payable	2,941	
Change in OPEB liabilities	106,235	
Change in compensated absences	<u>(12,533)</u>	<u>59,794</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ 1,578,133

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 7

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 3,786,678	\$ 3,786,678	\$ 3,883,566	\$ 96,888
Special assessments	98,000	98,000	115,119	17,119
Licenses and permits	10,645	10,645	18,834	8,189
Intergovernmental	870,520	870,520	980,969	110,449
Charges for services	641,032	641,032	725,332	84,300
Fines and forfeits	-	-	1,203	1,203
Gifts and contributions	-	-	7,441	7,441
Investment earnings	65,000	65,000	60,322	(4,678)
Miscellaneous	248,919	252,679	274,209	21,530
Total Revenues	\$ 5,720,794	\$ 5,724,554	\$ 6,066,995	\$ 342,441
Expenditures				
Current				
General government				
County commissioners	\$ 210,235	\$ 210,235	\$ 215,522	\$ (5,287)
Court administrator	46,200	46,200	31,926	14,274
Law library	20,000	20,000	13,206	6,794
County auditor	245,892	245,892	215,567	30,325
License center	95,802	95,802	81,784	14,018
County treasurer	144,186	144,186	184,172	(39,986)
Personnel	80,265	80,265	86,881	(6,616)
Central services	205,080	205,080	184,128	20,952
Elections	8,900	8,900	7,173	1,727
Information services	225,152	225,152	213,033	12,119
County attorney	298,702	298,702	287,285	11,417
Attorney's contingent	7,500	7,500	-	7,500
Victim witness	-	-	15	(15)
Drug court	3,528	3,528	-	3,528
County recorder	175,068	175,068	170,504	4,564
County assessor	263,820	263,820	216,782	47,038
Building maintenance	462,511	462,511	288,889	173,622
Veterans service	118,138	118,138	111,093	7,045
Motor pool	-	-	1,159	(1,159)
Public transit	418,555	418,555	470,037	(51,482)
Other general government	435,150	435,150	614,568	(179,418)
Total general government	\$ 3,464,684	\$ 3,464,684	\$ 3,393,724	\$ 70,960

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

*EXHIBIT 7
(Continued)*

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
County sheriff	\$ 1,103,434	\$ 1,103,434	\$ 1,231,481	\$ (128,047)
Sheriff's contingent	5,000	5,000	127	4,873
Jail	498,554	498,554	505,087	(6,533)
E-911 and radio maintenance	150,000	150,000	27,358	122,642
County coroner	10,000	10,000	10,828	(828)
Court services	162,173	162,173	226,973	(64,800)
Emergency management	54,327	54,327	77,474	(23,147)
Public Health Emergency Preparedness	12,291	12,291	11,801	490
Total public safety	\$ 1,995,779	\$ 1,995,779	\$ 2,091,129	\$ (95,350)
Culture and recreation				
County parks	\$ 22,100	\$ 22,100	\$ 21,289	\$ 811
Historical society	30,800	30,800	30,800	-
Total culture and recreation	\$ 52,900	\$ 52,900	\$ 52,089	\$ 811
Conservation of natural resources				
Environmental services	\$ 65,164	\$ 65,164	\$ 111,797	\$ (46,633)
County extension	90,483	90,483	86,854	3,629
Agricultural society/fair grounds	41,000	41,000	34,565	6,435
Soil and water conservation	36,000	36,000	36,000	-
CWP project	18,200	18,200	14,650	3,550
Local water plan block grant	57,141	57,141	58,880	(1,739)
Total conservation of natural resources	\$ 307,988	\$ 307,988	\$ 342,746	\$ (34,758)
Economic development				
Employment and training	\$ 64,168	\$ 64,168	\$ 66,734	\$ (2,566)
Economic development	43,000	43,000	40,960	2,040
Total economic development	\$ 107,168	\$ 107,168	\$ 107,694	\$ (526)

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

*EXHIBIT 7
(Continued)*

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (Continued)				
Capital outlay				
General government	\$ 27,000	\$ 27,000	\$ 833,110	\$ (806,110)
Debt service				
Principal	\$ 106,187	\$ 106,187	\$ 116,661	\$ (10,474)
Interest	6,212	6,212	6,211	1
Bond issuance costs	-	-	45,346	(45,346)
Total debt service	\$ 112,399	\$ 112,399	\$ 168,218	\$ (55,819)
Total Expenditures	\$ 6,067,918	\$ 6,067,918	\$ 6,988,710	\$ (920,792)
Excess of Revenues Over (Under)				
Expenditures	\$ (347,124)	\$ (343,364)	\$ (921,715)	\$ (578,351)
Other Financing Sources (Uses)				
Transfers in	\$ 42,321	\$ 42,321	\$ -	\$ (42,321)
Transfers out	-	-	(5,254)	(5,254)
Proceeds from loan	-	-	62,561	62,561
Bonds issued	-	-	1,418,704	1,418,704
Premium on bonds issued	-	-	26,642	26,642
Total Other Financing Sources (Uses)	\$ 42,321	\$ 42,321	\$ 1,502,653	\$ 1,460,332
Net Change in Fund Balance	\$ (304,803)	\$ (301,043)	\$ 580,938	\$ 881,981
Fund Balance - January 1	\$ 4,849,810	\$ 4,849,810	\$ 4,849,810	\$ -
Fund Balance - December 31	\$ 4,545,007	\$ 4,548,767	\$ 5,430,748	\$ 881,981

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 8

**BUDGETARY COMPARISON STATEMENT
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 901,965	\$ 901,965	\$ 909,718	\$ 7,753
Intergovernmental	3,667,587	3,667,587	2,828,132	(839,455)
Charges for services	290,000	290,000	279,200	(10,800)
Miscellaneous	225,500	225,500	331,704	106,204
Total Revenues	\$ 5,085,052	\$ 5,085,052	\$ 4,348,754	\$ (736,298)
Expenditures				
Current				
Highways and streets				
Administration	\$ 485,302	\$ 485,302	\$ 380,018	\$ 105,284
Maintenance	1,303,540	1,303,540	992,517	311,023
Construction	1,955,310	1,955,310	1,488,776	466,534
Equipment maintenance and shop	505,400	505,400	531,241	(25,841)
Other	746,500	746,500	766,987	(20,487)
Total highways and streets	\$ 4,996,052	\$ 4,996,052	\$ 4,159,539	\$ 836,513
Intergovernmental				
Highways and streets	193,000	193,000	199,034	(6,034)
Total Expenditures	\$ 5,189,052	\$ 5,189,052	\$ 4,358,573	\$ 830,479
Excess of Revenues Over (Under) Expenditures	\$ (104,000)	\$ (104,000)	\$ (9,819)	\$ 94,181
Other Financing Sources (Uses)				
Transfers in	4,000	4,000	4,461	461
Net Change in Fund Balance	\$ (100,000)	\$ (100,000)	\$ (5,358)	\$ 94,642
Fund Balance - January 1	1,680,513	1,680,513	1,680,513	-
Increase (decrease) in inventories	-	-	(36,849)	(36,849)
Fund Balance - December 31	\$ 1,580,513	\$ 1,580,513	\$ 1,638,306	\$ 57,793

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 9

**BUDGETARY COMPARISON STATEMENT
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,980,788	\$ 1,980,788	\$ 1,979,747	\$ (1,041)
Intergovernmental	2,183,361	2,183,361	2,336,217	152,856
Charges for services	374,464	374,464	436,712	62,248
Miscellaneous	139,550	139,550	199,448	59,898
Total Revenues	\$ 4,678,163	\$ 4,678,163	\$ 4,952,124	\$ 273,961
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,038,453	\$ 1,038,453	\$ 1,063,140	\$ (24,687)
Social services	3,263,260	3,263,260	3,660,309	(397,049)
Total human services	\$ 4,301,713	\$ 4,301,713	\$ 4,723,449	\$ (421,736)
Health				
Community health services	476,450	476,450	479,202	(2,752)
Total Expenditures	\$ 4,778,163	\$ 4,778,163	\$ 5,202,651	\$ (424,488)
Net Change in Fund Balance	\$ (100,000)	\$ (100,000)	\$ (250,527)	\$ (150,527)
Fund Balance - January 1	2,314,423	2,314,423	2,314,423	-
Fund Balance - December 31	\$ 2,214,423	\$ 2,214,423	\$ 2,063,896	\$ (150,527)

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FIDUCIARY FUNDS

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2013**

<u>Assets</u>	
Cash and pooled investments	\$ 275,407
Accrued interest	<u>50</u>
Total Assets	<u><u>\$ 275,457</u></u>
<u>Liabilities</u>	
Accounts payable	\$ 24,570
Due to other governments	<u>250,887</u>
Total Liabilities	<u><u>\$ 275,457</u></u>

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013**

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, 2013. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

Changes in Accounting Principles

During 2013, the County adopted new accounting guidance by implementing the provisions of GASB Statements 61 and 65. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, modifies and clarifies the requirements for inclusion of component units and their presentation in the primary government's financial statements. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items previously reported as assets and liabilities. See Note 1.D.7. for additional information regarding the County's deferred outflows/inflows of resources.

Restatements of December 31, 2012, net position or fund balance were not required as a result of adopting these changes in accounting principles.

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.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

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 position 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.

In the county-wide statement of net position, 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 position is reported in three parts: (1) net investment in capital assets, (2) restricted, and (3) unrestricted. 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.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

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.

The County reports the following major governmental funds:

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

The Road and Bridge Special Revenue Fund is used to account for restricted revenues from the federal and state government, as well as assigned property tax revenues used 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 restricted revenue sources from the federal, state, and other oversight agencies, as well as assigned property tax revenues to be used for economic assistance and community social services programs.

The Debt Service Fund is used to account for the restricted property tax revenues for the payment of principal, interest, and related costs of County debt.

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.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

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.

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, Deferred Outflows/Inflows of Resources, and Net Position 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, 2013, 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 2013 were \$60,322.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Deposits and Investments (Continued)

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). The investment in the pool is measured at the net position value per share provided by the pool.

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.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Deposits and Investments (Continued)

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.”

Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance 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 equally offset by nonspendable fund balance, which indicates that they do not constitute available spendable resources.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

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.

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.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

6. 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 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.

In the fund financial statements, governmental funds 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.

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. The County does not have any types of deferred outflows of resources in the current year.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has only one type of item, which arises only under a modified accrual basis of accounting and qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

8. Classification of Net Position

Net position in the county-wide financial statements is classified in the following components:

Net investment in capital assets - the portion of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted - the portion of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted - the portion of net position that is not included in the net investment in capital assets or restricted components.

9. Classification of Fund Balances

The County fund balance policy established a minimum unassigned fund balance equal to 35 to 50 percent of total General Fund operating revenues. Should the actual amount of fund balance fall below the desired range, the Board shall create a plan to restore the appropriate levels.

Fund balance is divided into five classifications based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

9. Classification of Fund Balances (Continued)

Restricted - amounts for which constraints have been placed on the use of resources either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or by law through constitutional provisions or enabling legislation.

Committed - amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts.

Assigned - amounts the County intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board or County Auditor who has been delegated that authority by Board resolution.

Unassigned - the residual classification for the General Fund; it includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

The County applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity (Continued)

10. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental 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.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

2. Stewardship, Compliance, and Accountability (Continued)

B. Excess of Expenditures Over Budget

The funds shown below had expenditures in excess of budget for the year ended December 31, 2013.

	Expenditures	Final Budget	Excess
General Fund	\$ 6,988,710	\$ 6,067,918	\$ 920,792
Human Services Special Revenue Fund	5,202,651	4,778,163	424,488
Debt Service Fund	299,208	285,180	14,028
Solid Waste Special Revenue Fund	222,917	222,525	392

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

C. Deficit Fund Equity

On the full accrual basis of accounting, 2 of the 38 drainage systems have incurred expenses in excess of revenues and available resources. These deficits will be eliminated with future special assessment levies against benefited properties. The following summary shows the fund equity as of December 31, 2013, using the full accrual basis of accounting.

Account balances	\$ 224,566
Account balance deficit	(86,338)
Fund Equity - Full Accrual Basis	\$ 138,228

Using the modified accrual basis of accounting, noncurrent receivables do not affect fund balance. Noncurrent receivables are deferred inflows of resources. Using this basis of accounting, 2 ditches had fund deficits.

Account balances	\$ 224,564
Account balance deficit	(86,338)
Fund Balance - Modified Accrual Basis	\$ 138,226

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Governmental funds	
Cash and pooled investments	\$ 11,053,327
Cash with fiscal agent	585,732
Fiduciary funds	
Cash and pooled investments	
Agency funds	<u>275,407</u>
 Total Cash and Investments	 <u>\$ 11,914,466</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.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. It is the County's 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, 2013, the County's deposits were not exposed to custodial credit risk.

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.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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, 2013, none of the County's investments were subject to custodial credit risk.

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, 2013, all of the County's investment carrying value balance of \$53,313 was invested in the MAGIC Fund.

2. Receivables

Receivables as of December 31, 2013, for the County are as follows:

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Taxes - prior	\$ 116,643	\$ -
Special assessments - prior	20,412	-
Special assessments - noncurrent	360,713	280,205
Accounts	270,532	-
Accrued interest	7,023	-
Due from other governments	2,684,593	119,000
Total	<u>\$ 3,459,916</u>	<u>\$ 399,205</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, 2013, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 686,771	\$ -	\$ -	\$ 686,771
Construction in progress	<u>237,790</u>	<u>-</u>	<u>237,790</u>	<u>-</u>
Total capital assets not depreciated	<u>\$ 924,561</u>	<u>\$ -</u>	<u>\$ 237,790</u>	<u>\$ 686,771</u>
Capital assets depreciated				
Buildings	\$ 7,915,919	\$ 845,538	\$ -	\$ 8,761,457
Land improvements	49,128	-	-	49,128
Machinery, furniture, and equipment	6,000,995	228,051	134,701	6,094,345
Infrastructure	<u>53,899,639</u>	<u>1,860,606</u>	<u>-</u>	<u>55,760,245</u>
Total capital assets depreciated	<u>\$ 67,865,681</u>	<u>\$ 2,934,195</u>	<u>\$ 134,701</u>	<u>\$ 70,665,175</u>
Less: accumulated depreciation for				
Buildings	\$ 2,981,419	\$ 189,959	\$ -	\$ 3,171,378
Land improvements	27,002	2,456	-	29,458
Machinery, furniture, and equipment	4,225,485	323,461	132,745	4,416,201
Infrastructure	<u>15,982,476</u>	<u>1,082,225</u>	<u>-</u>	<u>17,064,701</u>
Total accumulated depreciation	<u>\$ 23,216,382</u>	<u>\$ 1,598,101</u>	<u>\$ 132,745</u>	<u>\$ 24,681,738</u>
Total capital assets depreciated, net	<u>\$ 44,649,299</u>	<u>\$ 1,336,094</u>	<u>\$ 1,956</u>	<u>\$ 45,983,437</u>
Total Capital Assets, Net	<u>\$ 45,573,860</u>	<u>\$ 1,336,094</u>	<u>\$ 239,746</u>	<u>\$ 46,670,208</u>

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

General government	\$ 237,427
Public safety	78,946
Highways and streets, including depreciation of infrastructure assets	1,234,146
Human services	46,384
Conservation of natural resources	532
Sanitation	<u>666</u>
Total Depreciation Expense	<u>\$ 1,598,101</u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2013, 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	\$ 2,491	Reimbursement for services
	County Ditch	<u>8,756</u>	Reimbursement for services
Total due to General Fund		<u>\$ 11,247</u>	
Road and Bridge	General	\$ 35,115	Reimbursement for services
	Human Services	469	Reimbursement for services
	County Ditch	3,404	Reimbursement for services
	Solid Waste	<u>1,120</u>	Reimbursement for services
Total due to Road and Bridge Fund		<u>\$ 40,108</u>	
Human Services	General	<u>\$ 5,695</u>	Reimbursement for services
County Ditch	General	<u>\$ 793</u>	Reimbursement for services
Total Due To/From Other Funds		<u><u>\$ 57,843</u></u>	

The interfund receivables and payables are expected to be paid within one year of December 31, 2013.

2. Interfund Transfers

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>	<u>Purpose</u>
General	Road and Bridge	\$ 4,461	Allocated interest
	County Ditch	<u>793</u>	Allocated interest
Total Transfers In/Out		<u>\$ 5,254</u>	

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Other Postemployment Benefits (OPEB)

Watonwan County provides postemployment health care benefits for retirees and elected officials. Within 60 days of the effective date of an elected County official's retirement or termination, the County shall contribute an amount equal to the annual premium for single health insurance coverage in effect at the time of termination or retirement for every four complete years of service, up to a maximum of five terms. As of December 31, 2013, the County recorded a liability of \$88,080 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 2013, there were approximately 140 participants in the plan, including 2 retirees. The implicit rate subsidy amount was determined by an actuarial study to be \$19,908 for 2013.

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.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

1. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

ARC	\$	65,630
Interest on net OPEB obligation		6,176
Adjustment to ARC		(8,575)
		(8,575)
Annual OPEB cost (expense)	\$	63,231
Contributions made		(91,378)
		(91,378)
Increase (decrease) in net OPEB obligation	\$	(28,147)
Net OPEB obligation - January 1		215,329
Actuarial adjustment to the net OPEB obligation - January 1		(78,088)
		(78,088)
Net OPEB obligation - December 31	\$	109,094

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, 2011, 2012, and 2013, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contributions	Percentage Contributed	Net OPEB Obligations
December 31, 2011	\$ 63,700	\$ 8,636	13.6%	\$ 168,356
December 31, 2012	62,762	15,789	25.2	215,329
December 31, 2013	63,231	91,378	144.5	109,094

Funded Status and Funding Progress

As of January 1, 2011, the most recent actuarial valuation date, the plan was 0.0 percent funded. The actuarial accrued liability for benefits was \$445,548, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$445,548. The covered payroll (annual payroll of active employees covered by the plan) was \$5,302,315, and the ratio of the UAAL to the covered payroll was 8.4 percent.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

1. Other Postemployment Benefits (OPEB)

Funded Status and Funding Progress (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress - Other Postemployment Benefits, 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 designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2011, 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 8.5 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 7 years. Neither rate includes an inflation assumption. The UAAL is being amortized over 30 years as a level dollar on a closed basis. The remaining amortization period at December 31, 2013, was 24 years.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Long-Term Debt

Bonds

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amount</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2013</u>
G.O. Capital Improvement Bonds, Series 2005A	2026	\$35,000 - \$60,000	4.00 - 4.40	\$ 845,000	\$ 615,000
G.O. Capital Improvement Refunding Bonds, Series 2010A	2021	\$160,000 - \$180,000	1.10 - 3.00	1,650,000	1,350,000
G.O. Capital Notes, Series 2011	2016	\$40,000	1.95	200,000	120,000
G.O. Capital Improvement Crossover Refunding Bonds, Series 2012A	2026	\$50,000 - \$55,000	1.55 - 2.60	625,000	625,000
G.O. Capital Improvement Plan Bonds, Series 2013A	2034	\$50,000 - \$90,000	2.00 - 4.00	<u>1,420,000</u>	<u>1,420,000</u>
Total				<u>\$ 4,740,000</u>	\$ 4,130,000
Plus: unamortized premium					30,113
Less: unamortized discount					<u>(22,091)</u>
Total General Obligation Bonds, Net					<u>\$ 4,138,022</u>

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

Loans Payable

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Long-Term Debt

Loans Payable (Continued)

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amount</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2013</u>
Watonwan Watershed Clean Water Partnership Project, SRF0047	2014	\$22,853	2.00	\$ 485,926	\$ 22,627
Watonwan Watershed Continuation Clean Water Partnership Project, SRF0108	2017	\$28,212	2.00	541,173	205,398
Greater Blue Earth and Des Moines River Clean Water Partnership Project, SRF0221	2023	\$17,290	2.00	263,108	263,108
Watonwan Ag Best Management Loan Program	2021	\$633 - \$5,822	-	114,047	61,618
Total Loans				<u>\$ 1,404,254</u>	<u>\$ 552,751</u>

3. Debt Service Requirements

Debt service requirements at December 31, 2013, were as follows:

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>		<u>Capital Notes</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 195,000	\$ 95,754	\$ 40,000	\$ 2,340
2015	300,000	109,108	40,000	1,560
2016	310,000	103,007	40,000	782
2017	315,000	96,310	-	-
2018	325,000	88,985	-	-
2019 - 2023	1,355,000	317,699	-	-
2024 - 2028	700,000	156,536	-	-
2029 - 2033	420,000	60,800	-	-
2034	90,000	1,800	-	-
Total	<u>\$ 4,010,000</u>	<u>\$ 1,029,999</u>	<u>\$ 120,000</u>	<u>\$ 4,682</u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Debt Service Requirements (Continued)

Year Ending December 31	Loans Payable*	
	Principal	Interest
2014	\$ 85,571	\$ 4,283
2015	64,313	3,004
2016	65,717	1,931
2017	56,677	835
2018	5,399	-
2019 - 2023	11,966	-
Total	\$ 289,643	\$ 10,053

*The debt service requirements for the loan from the Minnesota Pollution Control Agency in the amount of \$263,108 are not known as of December 31, 2013.

Debt Refunding

On June 12, 2012, the County issued \$625,000 of General Obligation Capital Improvement Crossover Refunding Bonds, Series 2012A, with an average interest rate of 2.16 percent to refund \$580,000 of the General Obligation Capital Improvement Bonds, Series 2005, with an average interest rate of 4.20 percent. The refunding of the Series 2005 bonds will be conducted by means of a crossover refunding mechanism. The County will continue to make principal and interest payments on the Series 2005 bonds through the call date of August 1, 2014. The County refunded the bonds to reduce its total debt service payments by \$40,040 and to obtain an economic gain (difference between the present values of the debt service payment on the old and new debt) of \$34,037.

**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, 2013, 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	\$ 650,000	\$ -	\$ 35,000	\$ 615,000	\$ 35,000
G.O. Capital Improvement Refunding Bonds, Series 2010A	1,500,000	-	150,000	1,350,000	160,000
G.O. Capital Notes, Series 2011	160,000	-	40,000	120,000	40,000
G.O. Capital Improvement Crossover Refund Bonds, Series 2012A	625,000	-	-	625,000	-
G.O. Capital Improvement Plan Bonds, Series 2013A	-	1,420,000	-	1,420,000	-
Plus: unamortized premium on bonds	3,758	26,642	287	30,113	-
Less: unamortized discount on bonds	<u>(24,876)</u>	<u>-</u>	<u>(2,785)</u>	<u>(22,091)</u>	<u>-</u>
Total bonds payable	\$ 2,913,882	\$ 1,446,642	\$ 222,502	\$ 4,138,022	\$ 235,000
Loans payable	606,851	62,561	116,661	552,751	85,571
Net OPEB liabilities	215,329	63,231	169,466	109,094	-
Compensated absences	<u>864,869</u>	<u>12,533</u>	<u>-</u>	<u>877,402</u>	<u>510,491</u>
Total Long-Term Liabilities	<u>\$ 4,600,931</u>	<u>\$ 1,584,967</u>	<u>\$ 508,629</u>	<u>\$ 5,677,269</u>	<u>\$ 831,062</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). 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.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

D. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$470,000 per claim in 2013 and \$480,000 per claim in 2014. 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 General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund (the Public Employees Correctional Fund), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan and benefits vest after three years of credited service (five years for those first eligible for membership after June 30, 2010).

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

Police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute. Defined retirement benefits are based on a member's 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 General Employees Retirement Fund Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. 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 remaining 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.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the internet at www.mnpera.org; 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. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2013:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	14.40
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2013, 2012, and 2011, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
General Employees Retirement Fund	\$ 354,057	\$ 357,458	\$ 346,562
Public Employees Police and Fire Fund	61,079	63,013	65,525
Public Employees Correctional Fund	21,669	20,408	20,121

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

B. Defined Contribution Plan

Seven 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.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Pension Plans

B. Defined Contribution Plan (Continued)

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

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2013, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 4,739	\$ 4,739
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.

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

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

B. Joint Ventures

Minnesota River Valley Drug Task Force

The Minnesota River Valley Drug Task Force became operative on February 1, 1990, pursuant to Minn. Stat. § 471.59 with the purpose of providing law enforcement resources for narcotics law enforcement in the following jurisdictions: Cities of Mankato, North Mankato, St. James, St. Peter, and Madelia, and the Counties of Blue Earth, Martin, Watonwan, and Nicollet. The Task Force is governed by a Board of Directors consisting of the Chief of Police or Sheriff of each participating governmental unit or their designee. Funding is provided from the members and the sale of seized/forfeited properties.

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. The Counties of Brown, Cottonwood, Jackson, Lyon, Martin, Murray, Redwood, and Watonwan have agreed to guarantee their shares of debt arising within each respective county. The Red Rock Rural Water System provides water for participating rural water users and cities within the water district. The cost of providing these services is recovered through user charges.

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.

Complete financial information can be obtained from the Red Rock Rural Water System, 305 West Whited Street, Jeffers, Minnesota 56145.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

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. It is comprised of Blue Earth, Brown, Faribault, Le Sueur, Martin, McLeod, Nicollet, Sibley, Waseca, and Watonwan Counties, and the Cities of Hutchinson and Mankato. 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.

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.

Blue Earth County acts as the fiscal agent for the Radio Board. During 2013, the County made no contributions to the Joint Powers Board. The Chair of the Board is Kip Bruender, and the address is P. O. Box 8608, Mankato, Minnesota 56002-8608.

South Central Workforce Service Area Joint Powers Board

In June 2012, the County entered into a joint powers agreement with Blue Earth, Brown, Faribault, LeSueur, Martin, Nicollet, Waseca, and Sibley Counties, creating the South Central Workforce Services Area Joint Powers Board. The agreement is authorized by Minn. Stat. § 471.59. The Board is comprised of one voting member and one alternate member for each participating county. The goal of the Board is to develop and maintain a quality workforce for South Central Minnesota.

Watonwan County made no contributions to this organization in 2013.

Separate financial information can be obtained from South Central Workforce Council, 706 North Victory Drive, Mankato, Minnesota 56001.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Three Counties for Kids Collaborative

The Three Counties for Kids Collaborative was established in 1996 under the authority of Minn. Stat. § 471.59. The Collaborative includes Brown, Sibley, and Watonwan Counties; River Bend Education District; and 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. The Collaborative provides improved coordination for children and families through information sharing, elimination of duplicate services, and cooperative efforts. The Collaborative funds selected projects and services that support intervention and the prevention of out-of-home placement of children at risk.

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 and program reimbursements. During 2013, Watonwan County made \$23,008 in contributions to the Collaborative.

Any withdrawing party remains liable for fiscal obligations incurred prior to the effective date of withdrawal and shall not be entitled to any compensation as long as the Collaborative continues in existence. Should the Collaborative cease to exist, all property, real and personal, at the time of the termination shall be distributed by the Three Counties for Kids Collaborative Board of Directors.

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

Vision for Family and Community Collaborative

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Vision for Family and Community Collaborative (Continued)

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 2013, Watonwan County made contributions of \$20,144 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 Blue Earth, Brown, Cottonwood, Faribault, Freeborn, Jackson, Lincoln, Lyon, Martin, Mower, Murray, Nobles, Pipestone, Redwood, Renville, Rock, Watonwan, and Yellow Medicine 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 the year, Watonwan County paid \$2,000 to the Board.

Complete financial information can be obtained from the Rural Minnesota Energy Board, Slayton, Minnesota 56172.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

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

C. Jointly-Governed Organizations

Greater Blue Earth River Basin Alliance

The Greater Blue Earth River Basin Alliance (GBERBA) establishes goals, policies, and objectives to protect and enhance land and water resources in the Greater Blue Earth River Basin. The County made no contributions to the GBERBA in 2013.

Region Five - Southwest Minnesota Homeland Security Emergency Management Organization

The Region Five - Southwest Minnesota Homeland Security Emergency Management Organization (SWRHSEM) was established to provide for regional coordination of planning, training, purchase of equipment, and allocating emergency services and staff in order to better respond to emergencies and natural or other disasters within the SWRHSEM region. Control is vested in the Board, which is composed of representatives appointed by each Board of County Commissioners. Watonwan County's responsibility does not extend beyond making this appointment.

Minnesota Counties Computer Cooperative

The Minnesota Counties Computer Cooperative provides computer programming services for the County. During the year, the County purchased \$143,180 of services.

Minnesota Criminal Justice Data Communications Network

The Minnesota Criminal Justice Data Communications Network Joint Powers Agreement exists to create access for the County Sheriff and County Attorney to systems and tools available from the State of Minnesota, Department of Public Safety, and the Bureau of Criminal Apprehension to carry out criminal justice. During the year, the County made no payments to the joint powers.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

South Central Community Based Initiative

The South Central Community Based Initiative Joint Powers Board was established pursuant to Minn. Stat. §§ 471.59 and 245.4661 and a joint powers agreement effective June 20, 2008. The purpose of this joint powers agreement is to provide services to persons with mental illness in the most clinically-appropriate, person-centered, least restrictive, and cost effective ways. The focus is on improved access and outcomes for persons with mental illness as a result of the collaboration between state-operated services programs and community-based treatment. The membership of the Board is comprised of one representative appointed by Blue Earth, Brown, Faribault, Freeborn, Le Sueur, Martin, Nicollet, Rice, Sibley, and Watonwan Counties. The County did not contribute to the Joint Powers Board in 2013.

South Central Emergency Medical Service

The South Central Emergency Medical Service (SCEMS) Joint Powers Board consists of Blue Earth, Brown, Faribault, Le Sueur, Martin, Nicollet, Sibley, Waseca, and Watonwan Counties. The purpose of SCEMS is to ensure quality patient care is available throughout the nine-county area by maximizing the response capabilities of emergency medical personnel and to promote public education on injury prevention and appropriate response during a medical emergency. Each county appoints one member for the Joint Powers Board. The County did not contribute to SCEMS in 2013.

South Central Regional IMMTRACK Joint Powers Board

The South Central Regional IMMTRACK (immunization registry) Joint Powers Board promotes an implementation and maintenance of a regional immunization information system to ensure age-appropriate immunizations through complete and accurate records. During the year, the County made payments of \$2,708 to IMMTRACK.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Three Rivers Resource Conservation & Development

The Three Rivers Resource Conservation & Development (RC&D) is a locally initiated, sponsored, and directed organization that works to enhance the quality of life by improving the economic, social, and environmental conditions within the area. The RC&D is led locally by Soil and Water Conservation District Supervisors and County Commissioners from the nine-county area that is served by the council. The County did not contribute to RC&D during 2013.

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 2013.

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 2013 is \$88,188. The proportionate share of the counties may change for years 2014 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**

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

F. Related Party Transaction

The Auditor/Treasurer serves on the Board of Directors of St. James Federal Savings and Loan. On April 1, 2014, the County issued \$515,000 of G.O. Capital Improvement Plan Notes to St. James Federal Savings and Loan as described in Note 5.G., which were awarded by the County Board after a competitive bidding process with St. James Federal Savings and Loan providing the lowest interest rate. In order to avoid the appearance of any impropriety, the County Finance Director handled this transaction and made the presentation and recommendation to the County Board. As of December 31, 2013, the County also had \$135,300 invested in certificates of deposit with St. James Federal Savings and Loan. The County's investing procedures are also handled by the County Finance Director.

G. Subsequent Event

On April 1, 2014, the County issued \$515,000 of G.O. Capital Improvement Plan Notes. The proceeds will be used to purchase two motor graders for the Highway Department and two squad cars for the Sheriff's Department. The Notes will be paid over a seven-year period in equal installments of \$75,000 for the first six years, then a final payment of \$65,000 along with interest on the outstanding balance at an annual rate of 2.29 percent.

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REQUIRED SUPPLEMENTARY INFORMATION

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT A-1

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2013**

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%
January 1, 2011	-	445,548	445,548	0.0	5,302,315	8.4

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

Complete 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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SUPPLEMENTARY INFORMATION

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

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

DEBT SERVICE FUND

The Debt Service Fund is used to account for the restricted property tax revenues for the payment of principal, interest, and related costs of County debt.

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT B-1

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 263,337	\$ 263,337	\$ 263,340	\$ 3
Intergovernmental	21,843	21,843	22,319	476
Investment earnings	-	-	1,728	1,728
Total Revenues	\$ 285,180	\$ 285,180	\$ 287,387	\$ 2,207
Expenditures				
Debt service				
Principal	\$ 225,000	\$ 225,000	\$ 225,000	\$ -
Interest	59,180	59,180	74,098	(14,918)
Administrative charges	1,000	1,000	110	890
Total Expenditures	\$ 285,180	\$ 285,180	\$ 299,208	\$ (14,028)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (11,821)	\$ (11,821)
Other Financing Sources (Uses)				
Bonds issued	-	-	1,296	1,296
Net Change in Fund Balance	\$ -	\$ -	\$ (10,525)	\$ (10,525)
Fund Balance - January 1	899,404	899,404	899,404	-
Fund Balance - December 31	\$ 899,404	\$ 899,404	\$ 888,879	\$ (10,525)

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

OTHER GOVERNMENTAL FUNDS

NONMAJOR SPECIAL REVENUE FUNDS

County Ditch - to account for the operations of the County ditch system. Financing is provided by assessing benefited property owners.

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

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**

EXHIBIT C-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	<u>Special Revenue Funds</u>			<u>Total</u>
	<u>County Ditch</u>	<u>County Library</u>	<u>Solid Waste</u>	
<u>Assets</u>				
Cash and pooled investments	\$ 157,619	\$ 928,118	\$ 308,896	\$ 1,394,633
Taxes receivable				
Prior	-	8,248	203	8,451
Special assessments receivable				
Prior	37	-	16,349	16,386
Accrued interest receivable	-	1,476	-	1,476
Due from other funds	793	-	-	793
Due from other governments	2,102	-	-	2,102
	<u>2,102</u>	<u>-</u>	<u>-</u>	<u>2,102</u>
Total Assets	<u>\$ 160,551</u>	<u>\$ 937,842</u>	<u>\$ 325,448</u>	<u>\$ 1,423,841</u>
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>				
Liabilities				
Accounts payable	\$ 5,703	\$ 1,025	\$ -	\$ 6,728
Salaries payable	-	14,220	-	14,220
Due to other funds	12,160	-	1,120	13,280
Due to other governments	4,460	-	-	4,460
	<u>4,460</u>	<u>-</u>	<u>-</u>	<u>4,460</u>
Total Liabilities	<u>\$ 22,323</u>	<u>\$ 15,245</u>	<u>\$ 1,120</u>	<u>\$ 38,688</u>
Deferred Inflows of Resources				
Unavailable revenue	<u>\$ 2</u>	<u>\$ 6,052</u>	<u>\$ 12,012</u>	<u>\$ 18,066</u>
Fund Balances				
Restricted for				
Ditch maintenance and repair	\$ 224,564	\$ -	\$ -	\$ 224,564
Donations - library	-	458,424	-	458,424
Committed for				
Library operations	-	458,121	-	458,121
Assigned to				
Solid waste	-	-	312,316	312,316
Unassigned	(86,338)	-	-	(86,338)
	<u>(86,338)</u>	<u>-</u>	<u>-</u>	<u>(86,338)</u>
Total Fund Balances	<u>\$ 138,226</u>	<u>\$ 916,545</u>	<u>\$ 312,316</u>	<u>\$ 1,367,087</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 160,551</u>	<u>\$ 937,842</u>	<u>\$ 325,448</u>	<u>\$ 1,423,841</u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT C-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Special Revenue Funds			Total
	County Ditch	County Library	Solid Waste	
Revenues				
Taxes	\$ -	\$ 532,546	\$ 12,908	\$ 545,454
Special assessments	61,826	-	172,550	234,376
Intergovernmental	-	56,356	1,735	58,091
Charges for services	-	3,508	-	3,508
Fines and forfeits	-	10,076	-	10,076
Gifts and contributions	-	305,972	-	305,972
Investment earnings	-	7,143	-	7,143
Miscellaneous	79,534	2,992	12,758	95,284
Total Revenues	\$ 141,360	\$ 918,593	\$ 199,951	\$ 1,259,904
Expenditures				
Current				
Sanitation	\$ -	\$ -	\$ 222,917	\$ 222,917
Culture and recreation	-	578,858	-	578,858
Conservation of natural resources	42,888	-	-	42,888
Total Expenditures	\$ 42,888	\$ 578,858	\$ 222,917	\$ 844,663
Excess of Revenues Over (Under) Expenditures	\$ 98,472	\$ 339,735	\$ (22,966)	\$ 415,241
Other Financing Sources (Uses)				
Transfers in	793	-	-	793
Net Change in Fund Balances	\$ 99,265	\$ 339,735	\$ (22,966)	\$ 416,034
Fund Balances - January 1	38,961	576,810	335,282	951,053
Fund Balances - December 31	\$ 138,226	\$ 916,545	\$ 312,316	\$ 1,367,087

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT C-3

**BUDGETARY COMPARISON SCHEDULE
COUNTY DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ -	\$ 50,000	\$ 61,826	\$ 11,826
Miscellaneous	-	-	79,534	79,534
Total Revenues	\$ -	\$ 50,000	\$ 141,360	\$ 91,360
Expenditures				
Current				
Conservation of natural resources				
Other (ditch repairs)	-	100,000	42,888	57,112
Excess of Revenues Over (Under) Expenditures	\$ -	\$ (50,000)	\$ 98,472	\$ 148,472
Other Financing Sources (Uses)				
Transfers in	-	-	793	793
Net Change in Fund Balance	\$ -	\$ (50,000)	\$ 99,265	\$ 149,265
Fund Balance - January 1	38,961	38,961	38,961	-
Fund Balance - December 31	\$ 38,961	\$ (11,039)	\$ 138,226	\$ 149,265

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT C-4

**BUDGETARY COMPARISON SCHEDULE
COUNTY LIBRARY SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 532,939	\$ 532,939	\$ 532,546	\$ (393)
Intergovernmental	45,252	45,252	56,356	11,104
Charges for services	3,000	3,000	3,508	508
Fines and forfeits	8,100	8,100	10,076	1,976
Gifts and contributions	-	-	305,972	305,972
Investment earnings	2,500	2,500	7,143	4,643
Miscellaneous	-	-	2,992	2,992
Total Revenues	<u>\$ 591,791</u>	<u>\$ 591,791</u>	<u>\$ 918,593</u>	<u>\$ 326,802</u>
Expenditures				
Current				
Culture and recreation				
County library	\$ 591,791	\$ 591,791	\$ 573,375	\$ 18,416
Library endowment	-	-	5,483	(5,483)
Total Expenditures	<u>\$ 591,791</u>	<u>\$ 591,791</u>	<u>\$ 578,858</u>	<u>\$ 12,933</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 339,735</u>	<u>\$ 339,735</u>
Fund Balance - January 1	<u>576,810</u>	<u>576,810</u>	<u>576,810</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 576,810</u></u>	<u><u>\$ 576,810</u></u>	<u><u>\$ 916,545</u></u>	<u><u>\$ 339,735</u></u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT C-5

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 12,893	\$ 12,893	\$ 12,908	\$ 15
Special assessments	190,625	190,625	172,550	(18,075)
Intergovernmental	57,045	57,045	1,735	(55,310)
Miscellaneous	12,950	12,950	12,758	(192)
Total Revenues	\$ 273,513	\$ 273,513	\$ 199,951	\$ (73,562)
Expenditures				
Current				
Sanitation				
SCORE	222,525	222,525	222,917	(392)
Net Change in Fund Balance	\$ 50,988	\$ 50,988	\$ (22,966)	\$ (73,954)
Fund Balance - January 1	335,282	335,282	335,282	-
Fund Balance - December 31	\$ 386,270	\$ 386,270	\$ 312,316	\$ (73,954)

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**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**

EXHIBIT D-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Balance January 1	Additions	Deductions	Balance December 31
<u>AGENCY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 14,116	\$ 1,904,724	\$ 1,883,861	\$ 34,979
<u>Liabilities</u>				
Due to other governments	\$ 14,116	\$ 1,904,724	\$ 1,883,861	\$ 34,979
 <u>VISION FOR FAMILY AND COMMUNITY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 184,372	\$ 148,166	\$ 36,206
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 184,372	\$ 148,166	\$ 36,206
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 155,946	\$ 15,378,844	\$ 15,355,088	\$ 179,702
<u>Liabilities</u>				
Due to other governments	\$ 155,946	\$ 15,378,844	\$ 15,355,088	\$ 179,702

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

*EXHIBIT D-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Balance January 1	Additions	Deductions	Balance December 31
<u>CEMETERY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 24,470	\$ 172	\$ 122	\$ 24,520
Accrued interest	42	50	42	50
Total Assets	\$ 24,512	\$ 222	\$ 164	\$ 24,570
<u>Liabilities</u>				
Accounts payable	\$ 24,512	\$ 222	\$ 164	\$ 24,570
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 194,532	\$ 17,468,112	\$ 17,387,237	\$ 275,407
Accrued interest	42	50	42	50
Total Assets	\$ 194,574	\$ 17,468,162	\$ 17,387,279	\$ 275,457
<u>Liabilities</u>				
Accounts payable	\$ 24,512	\$ 222	\$ 164	\$ 24,570
Due to other governments	170,062	17,467,940	17,387,115	250,887
Total Liabilities	\$ 194,574	\$ 17,468,162	\$ 17,387,279	\$ 275,457

OTHER SCHEDULES

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT E-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2013**

Shared Revenue

State

Highway users tax	\$ 2,369,777
PERA rate reimbursement	19,906
Disparity reduction aid	5,064
Police aid	53,685
County program aid	499,197
Market value credit	109,402
Enhanced 911	96,554

Total shared revenue **\$ 3,153,585**

Reimbursement for Services

State

Minnesota Department of Human Services	\$ 402,589
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Payments

Local

Local contributions	\$ 17,943
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Grants

State

Minnesota Department/Board of Health	\$ 45,766
Natural Resources	50,265
Human Services	639,338
Corrections	47,059
Veterans Affairs	2,298
Transportation	507,011
Water and Soil Resources	54,838
Education	10,963

Total state **\$ 1,357,538**

Federal

Department of Agriculture	\$ 181,223
Transportation	97,793
Health and Human Services	977,330
Homeland Security	37,727

Total federal **\$ 1,294,073**

Total state and federal grants **\$ 2,651,611**

Total Intergovernmental Revenue **\$ 6,225,728**

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT E-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 98,823
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	97,995
Passed Through Minnesota Department of Agriculture WIC Farmers' Market Nutrition Program (FMNP)	10.572	227
Total U.S. Department of Agriculture		\$ 197,045
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Formula Grants for Rural Areas	20.509	\$ 97,793
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Health Public Health Emergency Preparedness	93.069	\$ 29,976
Temporary Assistance for Needy Families (TANF) (Total TANF 93.558 \$113,658)	93.558	21,177
Maternal and Child Health Services Block Grant to the States	93.994	18,046
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	2,849
Temporary Assistance for Needy Families (TANF) (Total TANF 93.558 \$113,658)	93.558	92,481
Child Support Enforcement	93.563	223,601
Refugee and Entrant Assistance - State-Administered Programs	93.566	228
Child Care and Development Block Grant	93.575	4,370
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1,425
Foster Care - Title IV-E	93.658	165,132
Social Services Block Grant	93.667	77,641
Chafee Foster Care Independence Program	93.674	18,838
Children's Health Insurance Program	93.767	41
Medical Assistance Program	93.778	437,794
Total U.S. Department of Health and Human Services		\$ 1,093,599

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

***EXHIBIT E-2
(Continued)***

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ 20,724
Emergency Management Performance Grants	97.042	<u>17,003</u>
Total U.S. Department of Homeland Security		<u>\$ 37,727</u>
Total Federal Awards		<u>\$ 1,426,164</u>

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

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, 2013. 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 position, 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	\$	1,294,073
Grants received more than 60 days after year-end, unavailable in 2013		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program		15,822
Temporary Assistance for Needy Families		9,519
Child Support Enforcement		26,526
Foster Care - Title IV-E		10,238
Medical Assistance Program		69,986
Expenditures Per Schedule of Expenditures of Federal Awards	\$	1,426,164

5. Subrecipients

During 2013, the County did not pass any federal money to subrecipients.

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Noncompliance material to the financial statements noted? **No**

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **No**

Type of auditor's report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **No**

The major program is:

Medical Assistance Program

CFDA #93.778

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

Watonwan County qualified as a low-risk auditee? **Yes**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2012-001

Inventory Records

Criteria: The County should establish internal controls over the inventory system to ensure that information provided by the system is accurate and that County assets are adequately safeguarded.

Condition: During our audit, we noted that significant year-end inventory system adjustments were made by the County to correct inventory balances based on the annual physical inventory count. Significant adjustments indicate that inventory additions and withdrawals were not being accurately accounted for throughout the year.

Context: The Highway Department maintains an inventory system to monitor the movement of various County assets. Additions to the system are posted based on vendor invoices; withdrawals are based on requisition sheets and/or timesheets provided by Highway personnel and reports from the fuel system. The County performs a year-end inventory count and makes adjustments in the inventory system to reflect actual inventory balances on hand. The year-end adjustments, which included investigation of significant adjustments for cause, were reviewed by the Highway Engineer and Highway Accountant.

Effect: The inventory system did not reflect an accurate account of the inventory on hand during the year. Without adequate controls over inventory, County assets are exposed to misuse and theft.

Cause: Based on the Highway Department's investigation, the following issues were identified which resulted in the differences in the inventory system:

- additions were entered into the inventory system in the wrong account or for the wrong quantity;
- inventory items which were modified or altered were not appropriately adjusted in the inventory system (specifically, sand was added to salt to make a sand-salt mix without making an adjustment to the quantity or value in the system); and
- inventory withdrawals were not accurately reported to the accounting staff.

Recommendation: We recommend that the County continue the process of implementing improvements to the controls over the inventory system. Based on reviews of inventory balances, the County should identify inventory items that are not being accurately accounted for in the inventory system and develop procedures to ensure that all additions and withdrawals are reported to accounting personnel and accurately recorded in the inventory system. Additionally, the County inventory policy should be amended to include any new procedures developed, such as the review and approval of the year-end inventory adjustments by the Highway Engineer and/or additional procedures performed to more frequently review specific inventory accounts.

Client's Response:

Watsonwan County Public Works has made great strides in analyzing and developing spreadsheets to assist in managing inventory control. These analyses and spreadsheets have made a significant improvement in internal controls for tracking fuel inventory. However, said actions were not implemented early enough in 2013 to proactively analyze and make necessary adjustments to other inventory items for which significant end-of-year adjustments resulted. Now that an end-of-year tracking spreadsheet has been developed for other inventory items and with more attention to timely coordination of year-end inventory counts, it is anticipated that future audits will show very few, if any, significant year-end inventory adjustments.

PREVIOUSLY REPORTED ITEM RESOLVED

Audit Adjustments (2012-002)

During our previous audit, audit adjustments were proposed that resulted in significant changes to the County's financial statements.

Resolution

Adjustments proposed during the current audit did not result in significant changes to the County's financial statements.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2009-001

Ditch Fund Deficit Balances

Criteria: Drainage system costs are required by Minn. Stat. § 103E.655 to be paid from the ditch system account for which the costs are being incurred. If money is not available in the drainage system account on which the warrant is drawn, this statute allows for loans to be made from ditch systems with surplus funds or from the General Fund to a ditch system with insufficient cash to pay expenditures. Such loans must be paid back with interest.

Additionally, individual ditch systems should be maintained with a positive fund balance to display solvency. As provided by Minn. Stat. § 103E.735, subd. 1, a fund balance to be used for repairs may be established for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$100,000, whichever is larger.

Condition: The County had ditch systems with individual deficit cash balances and individual fund deficits at December 31, 2013.

Context: At December 31, 2013, two ditch systems had negative cash balances totaling \$77,354, and two ditch systems had fund deficits totaling \$86,338. At year-end, interest was charged by the General Fund to individual ditch systems maintaining negative cash balances during the year.

Effect: The County is not in compliance with Minnesota statutes by having ditch systems with negative cash balances. Ditch systems with fund deficits indicates that measures have not been taken to ensure an individual ditch system can meet financial obligations.

Cause: The County informed us that expenditures had been made for ditch systems with insufficient cash to cover the expenditures. Additionally, special assessments levied for systems had not been sufficient to meet all obligations of the systems. With the purpose of reducing the complexity of related accounting, it is the County's practice to allow individual ditch systems to maintain negative cash balances and be charged interest to be repaid to the General Fund as compensation for the implied loan. These expenditures have resulted in fund deficit balances because the costs are associated with open petition improvement projects. Depending upon the outcome of the petitions, related costs will be recovered either from the petitioners or through bonding and subsequent special assessment collections. Deficits will be addressed after the petition process is complete.

Recommendation: We recommend the County eliminate the cash deficits by borrowing from eligible funds with surplus cash balances under Minn. Stat. § 103E.655. Fund deficits should be eliminated by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1, which permits the accumulation of a surplus cash balance to provide for the repair and maintenance of the ditch systems.

Client's Response:

Due to the nature of public drainage system administration, it is difficult to anticipate the incurrence of costs which result in deficit cash balances and fund balances. The two systems identified both have active improvement petitions filed and are in process. Special assessments could not be levied for these systems; if the petition is denied, the petitioners are responsible for the costs; if approved, a new set of benefits needs to be calculated to determine which beneficiaries will bear the costs. The ditch fund maintains an overall positive cash balance, and we allocate interest based on the average monthly cash balance. We believe this system is fair, and the overall ditch fund balance meets the intent of the law. Overall, the deficits exist only in the ditches with petitions outstanding and, as stated prior, those systems cannot be resolved until conclusion of the process.

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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*

Independent Auditor's Report

Board of County Commissioners
Watonwan County

We have audited, 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 12, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Watonwan County's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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. 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 the attention of those charged with governance.

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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 2012-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Watonwan County's financial statements are free from 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

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the County's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the County has no tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that Watonwan County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as item 2009-001. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Watonwan County's Response to Findings

Watonwan County's responses to the internal control and legal compliance findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 12, 2014

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Board of County Commissioners
Watonwan County

Report on Compliance for Each Major Federal Program

We have audited Watonwan County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on the County's major federal program for the year ended December 31, 2013. Watonwan County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Watonwan County's major federal program based on our audit of the types of compliance requirements referred to above. 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Opinion on the Major Federal Program

In our opinion, Watonwan County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of Watonwan County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance.

Our consideration of 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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 12, 2014

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR