

# STATE OF MINNESOTA

## Office of the State Auditor



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

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

**YEAR ENDED DECEMBER 31, 2016**

## **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 150 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 650 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, 2016**



**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  
2016**

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
<b>Commissioners</b>		
1st District	Raymond Gustafson	January 2017
2nd District	Keith Brekken	January 2019
3rd District	David Holmgren	January 2017
4th District	Scott Sanders	January 2019
5th District	Kathleen Svalland*	January 2017
<b>Officers</b>		
<b>Elected</b>		
Attorney	Stephen Lindee	January 2019
Auditor/Treasurer	Donald Kuhlman	January 2019
Recorder	Joy Sing	January 2019
Sheriff	Gary Menssen	January 2019
<b>Appointed</b>		
Assessor	Lynn Krachmer	January 2017
Court Administrator (State)	Kelly Iverson	Indefinite
Coroner	Dr. Lindy Eatwell	January 2019
Highway Engineer	Roger Risser	May 2019
Probation Officer	Paul Harris	Indefinite
Veterans Service Officer	Deb Grote	Indefinite
Human Services Director	Naomi Ochsendorf	Indefinite

\*2016 Chair

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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### INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Watonwan County  
St. James, Minnesota

#### 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, 2016, 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 from 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, 2016, 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.

### ***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 Governmental Accounting Standards Board, 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 June 5, 2017, 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 the Uniform Guidance**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County’s basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The SEFA 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 SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

*/s/Rebecca Otto*

*/s/Greg Hierlinger*

REBECCA OTTO  
STATE AUDITOR

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

June 5, 2017

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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, 2016  
(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, 2016. 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 and deferred outflows of resources of Watonwan County exceeded its liabilities and deferred inflows of resources at the close of 2016 by \$57,261,960. Of this amount, \$2,433,512 (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 \$3,297,331 in 2016.
- At the close of 2016, Watonwan County's governmental funds reported combined ending fund balances of \$9,797,210, of which \$1,157,861 is unassigned and is available for spending at the County's discretion.
- At the close of 2016, unassigned fund balance for the General Fund was \$3,132,070, or 47.0 percent, of total General Fund expenditures.
- Watonwan County's total bonds and capital notes payable decreased by \$385,000. There were payments of \$160,000 on the G.O. Capital Improvement Plan Refunding Bonds, Series 2010A; \$50,000 on the G.O. Capital Improvement Plan Crossover Refunding Bonds, Series 2012A; and \$60,000 on the G.O. Capital Improvement Plan Bonds, Series 2013A. In addition, payments of \$40,000 and \$75,000 were made on the G.O. Capital Notes, Series 2011 and Series 2014, respectively.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

### **County-Wide Financial Statements**

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

The statement of net position presents information on all of Watonwan County's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference 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 funds balance sheet and the governmental funds 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.

Watsonwan County reports five major funds and two nonmajor funds. The major funds are the General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, County Ditch Special Revenue Fund, and the Debt Service Fund. The nonmajor funds are the County Library 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. Watsonwan County's fiduciary funds consist of five 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.

Watsonwan County's governmental fund financial statements are on Exhibits 3 to 9, and Watsonwan 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 Watsonwan County's progress in funding its obligation to provide other postemployment benefits to its employees (Exhibit A-1) and schedules of the proportionate share of net pension liability and schedules of contributions (Exhibits A-2 to A-7). 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 (with the exception of the County Ditch Special Revenue Fund), 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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$57,261,960 at the close of 2016. The largest portion of Watonwan County's net position (91.8 percent) reflects its investment in capital assets (for example, land, buildings, and equipment), less any related debt used to acquire those assets that is still outstanding. However, it should be noted that these assets are not available for future spending.

#### Governmental Net Position

	<u>2015</u>	<u>2016</u>
Assets		
Current and other assets	\$ 14,099,304	\$ 13,955,562
Capital assets	<u>50,821,518</u>	<u>55,588,125</u>
Total Assets	<u>\$ 64,920,822</u>	<u>\$ 69,543,687</u>
Deferred Outflows of Resources	<u>\$ 845,265</u>	<u>\$ 5,126,339</u>
Liabilities		
Long-term liabilities outstanding	\$ 10,072,416	\$ 14,535,055
Other liabilities	<u>1,127,040</u>	<u>951,479</u>
Total Liabilities	<u>\$ 11,199,456</u>	<u>\$ 15,486,534</u>
Deferred Inflows of Resources	<u>\$ 602,002</u>	<u>\$ 1,921,532</u>
Net Position		
Net investment in capital assets	\$ 47,700,289	\$ 52,563,595
Restricted	2,264,399	2,264,853
Unrestricted	<u>3,999,941</u>	<u>2,433,512</u>
Total Net Position	<u>\$ 53,964,629</u>	<u>\$ 57,261,960</u>

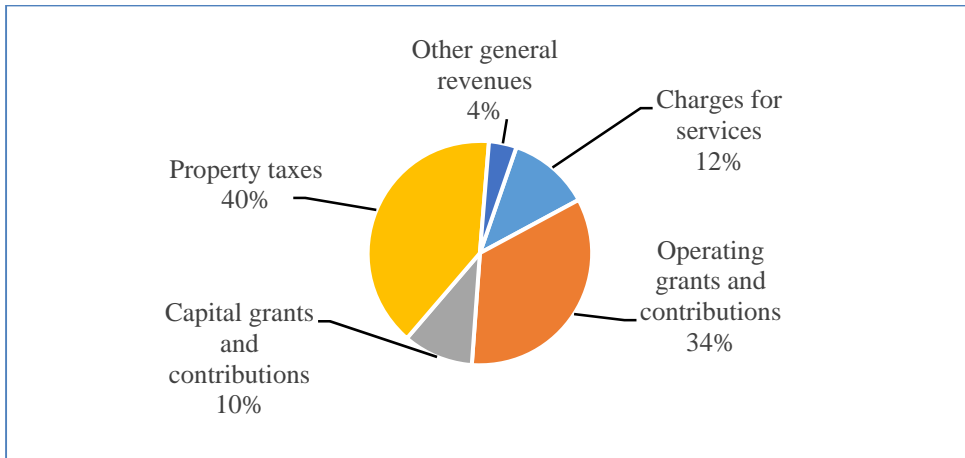
The unrestricted net position amount of \$2,433,512 as of December 31, 2016, may be used to meet the County's ongoing obligations to citizens and creditors.

## Governmental Activities

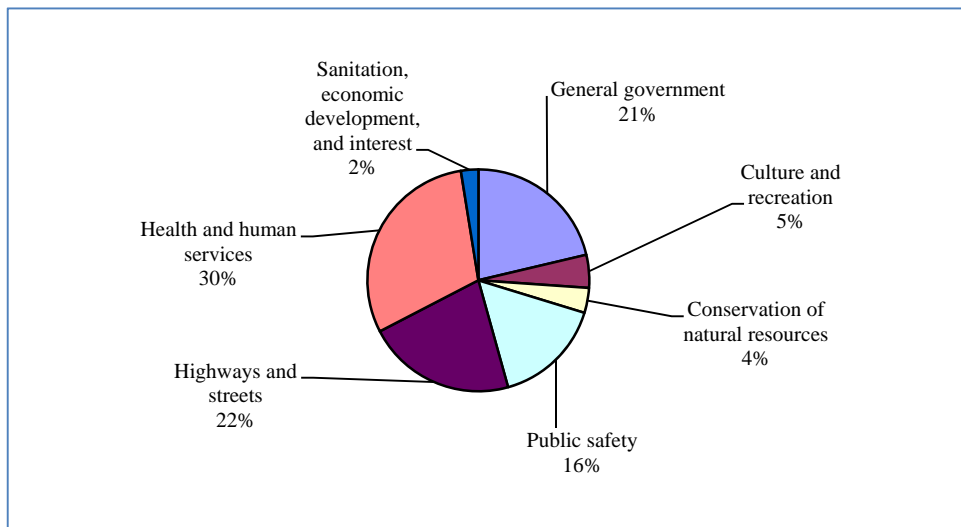
The following table summarizes the changes in net position for 2016.

	<u>2015</u>	<u>2016</u>
<b>Revenues</b>		
Program revenues		
Charges for services	\$ 3,645,909	\$ 2,526,826
Operating grants and contributions	6,833,671	7,254,397
Capital grants and contributions	560,821	2,157,772
General revenues		
Property taxes	8,188,165	8,535,523
Other	773,912	846,667
 Total Revenues	 <u>\$ 20,002,478</u>	 <u>\$ 21,321,185</u>
<b>Expenses</b>		
General government	\$ 3,511,368	\$ 3,839,082
Public safety	2,399,311	2,874,342
Highways and streets	4,287,436	3,913,392
Sanitation	252,899	232,042
Human services	4,655,153	4,810,211
Health	582,483	609,324
Culture and recreation	699,111	864,642
Conservation of natural resources	2,541,473	656,014
Economic development	117,367	126,566
Interest	106,569	98,239
 Total Expenses	 <u>\$ 19,153,170</u>	 <u>\$ 18,023,854</u>
 Change in Net Position	 \$ 849,308	 \$ 3,297,331
 Net Position - January 1	 <u>53,115,321</u>	 <u>53,964,629</u>
 Net Position - December 31	 <u>\$ 53,964,629</u>	 <u>\$ 57,261,960</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 \$9,797,210. Of this amount, \$1,157,861 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 \$3,132,070, while the total fund balance was \$5,999,547. 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 47.0 percent of total General Fund expenditures for 2016, while total fund balance represents 90.0 percent of total General Fund expenditures. In 2016, the total fund balance in the General Fund increased by \$74,101, with unassigned fund balance decreasing by \$1,722,214, restricted fund balances decreasing by \$148,685, and nonspendable fund balance increasing by \$1,945,000.

The Road and Bridge Special Revenue Fund's fund balance decreased by \$1,139,267 in 2016. The fund showed an excess of expenditures over revenues of \$1,662,206, or a budget variance of \$1,232,801. In 2016, there were significant concrete overlay projects on County State-Aid Highway 5. The County received an advance of \$905,026 in County State-Aid construction funds to offset the costs. The County budgeted the advance of State-Aid as revenue in 2016. Those funds will not be recognized as revenue until 2017. In addition, there was a transfer from the General Fund of \$380,000 to offset the budgeted \$429,405 deficit, leaving a budgeted use of fund balance of \$49,405. There were also significant receivables that were not recognized as revenue in 2016 due to the fact they had not been received until after the cutoff date for inclusion in the fund financial statements.

In 2016, the Human Services Special Revenue Fund's fund balance decreased by \$133,450. Total revenues were under budget by \$246,901, while expenditures were under budget by \$263,451. There was also a \$150,000 budgeted use of fund balance for 2016.

The County Ditch Special Revenue Fund's fund balance decreased by \$38,575 to (\$1,810,240) in 2016. In 2016, ditch improvement projects on Judicial Ditch Nos. 2 and 13 were completed, but only No. 2 was finalized. The fund will collect special assessments in future years to cover the deficit fund balance.

In 2016, the Debt Service Fund's fund balance decreased by \$26,393. The decrease was budgeted to be \$25,208.

### **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 \$314,223, or about 4.65 percent. Total expenditures were under budget by \$241,216, or 3.49 percent. The 2016 budget anticipated \$538,080 of fund balance to be expended. The added revenues and reduced expenditures resulted in an actual increase in fund balance of \$74,101.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2016, amounts to \$55,588,125 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, land improvements, equipment, and infrastructure. The total increase in the County's investment in capital assets, net of depreciation, for the current fiscal year was \$4,766,607.

	<b>Governmental Capital Assets (Net of Depreciation)</b>	
	<u>2015</u>	<u>2016</u>
Land	\$ 686,771	\$ 686,771
Construction in progress	1,106,875	2,033,176
Land improvements	136,047	853,221
Buildings	5,285,666	5,083,600
Machinery, furniture, and equipment	1,999,832	2,303,592
Infrastructure	<u>41,606,327</u>	<u>44,627,765</u>
Total	<u>\$ 50,821,518</u>	<u>\$ 55,588,125</u>

Additional information on the County's capital assets can be found in Note 3.A.3. 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 \$3,070,000, which is backed by the full faith and credit of the government.

	<b>Governmental Outstanding Debt</b>	
	<u>2015</u>	<u>2016</u>
General obligation bonds and notes	<u>\$ 3,455,000</u>	<u>\$ 3,070,000</u>

Standard and Poor's Ratings service raised its rating of "AA-" to "AA" on Watonwan County's outstanding general obligation bonds, based on what they considered to be strong economic indicator improvements and a growing tax base. The rating was increased when Standard and Poor's conducted a rating for the County's Series 2016A General Obligation Water Revenue Crossover Refunding Bonds (conduit debt) in 2016.

Additional information on the County's debt can be found in Note 3.C. 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 2016, 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 4.4 percent as of the end of 2016, slightly higher than the state-wide rate of 4.1 percent.
- The total tax capacity of the County dropped by approximately 7.5 percent due to a decrease in farmland value, while the total residential values remained virtually unchanged from 2015 to 2016.

At the end of 2016, Watonwan County set its 2017 revenue and expenditure budgets, budgeting revenues and expenditures of \$17,767,934 and \$18,142,435, 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/Treasurer, 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, 2016**

**Assets**

Cash and pooled investments	\$	10,354,864
Taxes receivable		
Delinquent		100,790
Special assessments receivable		
Delinquent		18,656
Noncurrent		1,077,055
Accounts receivable		197,262
Accrued interest receivable		34,442
Due from other governments		1,757,306
Inventories		415,187
Capital assets		
Non-depreciable		2,719,947
Depreciable - net of accumulated depreciation		52,868,178
<b>Total Assets</b>	<b>\$</b>	<b><u>69,543,687</u></b>

**Deferred Outflows of Resources**

Deferred pension outflows	\$	<b><u>5,126,339</u></b>
---------------------------	----	-------------------------

**Liabilities**

Accounts payable	\$	181,600
Salaries payable		152,740
Contracts payable		293,191
Due to other governments		175,680
Accrued interest payable		38,711
Unearned revenue		109,557
Long-term liabilities		
Due within one year		960,905
Due in more than one year		3,385,730
Other postemployment benefits obligations		264,613
Net pension liability		9,923,807
<b>Total Liabilities</b>	<b>\$</b>	<b><u>15,486,534</u></b>

**Deferred Inflows of Resources**

Advanced allotments	\$	905,026
Deferred pension inflows		1,016,506
<b>Total Deferred Inflows of Resources</b>	<b>\$</b>	<b><u>1,921,532</u></b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

***EXHIBIT 1  
(Continued)***

**STATEMENT OF NET POSITION  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2016**

**Net Position**

Net investment in capital assets	\$ 52,563,595
Restricted for	
General government	196,965
Public safety	157,405
Highways and streets	629,663
Culture and recreation	440,281
Conservation of natural resources	361,145
Economic development	15,933
Debt service	463,461
Unrestricted	<u>2,433,512</u>
<b>Total Net Position</b>	<b><u><u>\$ 57,261,960</u></u></b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT 2*

**STATEMENT OF ACTIVITIES  
GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<b>Program Revenues</b>			<b>Net (Expense)</b>
<b>Expenses</b>	<b>Fees, Charges, Fines, and Other</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Revenue and Changes in Net Position</b>
<b><u>Functions/Programs</u></b>				
<b>Primary government</b>				
<b>Governmental activities</b>				
General government	\$ 3,839,082	\$ 776,121	\$ 495,235	\$ -
Public safety	2,874,342	216,590	218,417	-
Highways and streets	3,913,392	499,700	3,887,608	1,304,230
Sanitation	232,042	179,299	68,710	-
Human services	4,810,211	549,022	2,152,819	-
Health	609,324	52,534	311,974	-
Culture and recreation	864,642	13,266	18,512	853,542
Conservation of natural resources	656,014	168,011	101,122	-
Economic development	126,566	72,283	-	-
Interest	98,239	-	-	-
<b>Total Governmental Activities</b>	<b>\$ 18,023,854</b>	<b>\$ 2,526,826</b>	<b>\$ 7,254,397</b>	<b>\$ 2,157,772</b>
 <b>General Revenues</b>				
Property taxes				\$ 8,535,523
Mortgage registry and deed tax				6,335
Wheelage tax				120,525
Grants and contributions not restricted to specific programs				465,481
Unrestricted investment earnings				175,242
Miscellaneous				79,084
<b>Total general revenues</b>				<b>\$ 9,382,190</b>
<b>Change in net position</b>				<b>\$ 3,297,331</b>
<b>Net Position - January 1</b>				<b>53,964,629</b>
<b>Net Position - December 31</b>				<b>\$ 57,261,960</b>

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**FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2016**

	<b>General</b>	<b>Road and Bridge</b>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 4,150,793	\$ 1,599,685
Taxes receivable - delinquent	51,325	12,956
Special assessments receivable		
Delinquent	4,937	-
Noncurrent	331,234	-
Accounts receivable	15,311	-
Accrued interest receivable	34,442	-
Due from other funds	43,024	24,939
Due from other governments	115,446	1,136,427
Advances to other funds	1,945,000	-
Inventories	-	415,187
	<b>\$ 6,691,512</b>	<b>\$ 3,189,194</b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>		
<b>Liabilities</b>		
Accounts payable	\$ 54,672	\$ 35,835
Salaries payable	72,801	20,281
Contracts payable	-	234,310
Due to other funds	27,258	-
Due to other governments	65,546	-
Unearned revenue	109,557	-
Advances from other funds	-	-
	<b>\$ 329,834</b>	<b>\$ 290,426</b>
<b>Deferred Inflows of Resources</b>		
Advanced allotments	\$ -	\$ 905,026
Unavailable revenue	362,131	977,142
	<b>\$ 362,131</b>	<b>\$ 1,882,168</b>



**EXHIBIT 3**

<u>Human Services</u>	<u>County Ditch</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 2,460,062	\$ 218,418	\$ 462,670	\$ 1,463,236	\$ 10,354,864
24,295	-	5,083	7,131	100,790
-	211	-	13,508	18,656
-	745,821	-	-	1,077,055
180,998	953	-	-	197,262
-	-	-	-	34,442
14,937	-	-	-	82,900
411,380	7,053	87,000	-	1,757,306
-	-	-	-	1,945,000
-	-	-	-	415,187
<b><u>\$ 3,091,672</u></b>	<b><u>\$ 972,456</u></b>	<b><u>\$ 554,753</u></b>	<b><u>\$ 1,483,875</u></b>	<b><u>\$ 15,983,462</u></b>
\$ 85,082	\$ 1,265	\$ 645	\$ 4,101	\$ 181,600
53,129	-	-	6,529	152,740
-	58,881	-	-	293,191
43,367	12,241	-	34	82,900
90,732	19,402	-	-	175,680
-	-	-	-	109,557
-	1,945,000	-	-	1,945,000
<b><u>\$ 272,310</u></b>	<b><u>\$ 2,036,789</u></b>	<b><u>\$ 645</u></b>	<b><u>\$ 10,664</u></b>	<b><u>\$ 2,940,668</u></b>
\$ -	\$ -	\$ -	\$ -	\$ 905,026
150,576	745,907	90,647	14,155	2,340,558
<b><u>\$ 150,576</u></b>	<b><u>\$ 745,907</u></b>	<b><u>\$ 90,647</u></b>	<b><u>\$ 14,155</u></b>	<b><u>\$ 3,245,584</u></b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2016**

	<b>General</b>	<b>Road and Bridge</b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b> (Continued)		
<b>Fund Balances</b>		
Nonspendable		
Inventories	\$ -	\$ 415,187
Advances to other funds	1,945,000	-
Restricted for		
Law library	30,212	-
Recorder's equipment	92,682	-
Technology fees	65,947	-
E-911	153,056	-
Sheriff's contingency	4,349	-
HRA special benefit levy	15,933	-
Invasive species	67,517	-
ISTS loan repayments	205,568	-
Donations - veterans' van	8,124	-
Ditch maintenance and repair	-	-
Library operations from donations	-	-
Capital projects	279,089	-
Debt service	-	-
Committed for library operations	-	-
Assigned to		
Road and bridge	-	601,413
Human services	-	-
Solid waste	-	-
Unassigned	3,132,070	-
<b>Total Fund Balances</b>	<b>\$ 5,999,547</b>	<b>\$ 1,016,600</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 6,691,512</b>	<b>\$ 3,189,194</b>

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

<u>Human Services</u>	<u>County Ditch</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ -	\$ 415,187
-	-	-	-	1,945,000
-	-	-	-	30,212
-	-	-	-	92,682
-	-	-	-	65,947
-	-	-	-	153,056
-	-	-	-	4,349
-	-	-	-	15,933
-	-	-	-	67,517
-	-	-	-	205,568
-	-	-	-	8,124
-	163,969	-	-	163,969
-	-	-	440,281	440,281
-	-	-	-	279,089
-	-	463,461	-	463,461
-	-	-	540,568	540,568
-	-	-	-	601,413
2,668,786	-	-	-	2,668,786
-	-	-	478,207	478,207
-	(1,974,209)	-	-	1,157,861
<u>\$ 2,668,786</u>	<u>\$ (1,810,240)</u>	<u>\$ 463,461</u>	<u>\$ 1,459,056</u>	<u>\$ 9,797,210</u>
<u><u>\$ 3,091,672</u></u>	<u><u>\$ 972,456</u></u>	<u><u>\$ 554,753</u></u>	<u><u>\$ 1,483,875</u></u>	<u><u>\$ 15,983,462</u></u>

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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF THE FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
DECEMBER 31, 2016**

<b>Fund balances - total governmental funds (Exhibit 3)</b>		<b>\$</b>	<b>9,797,210</b>
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.			55,588,125
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.			2,340,558
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.			
Deferred outflows related to pensions			5,126,339
Deferred inflows related to pensions			(1,016,506)
Governmental funds do not report a liability for accrued interest on long-term liabilities until due and payable.			(38,711)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.			
General obligation bonds	\$	(2,705,000)	
Discount on bonds		9,490	
Premium on bonds		(25,272)	
General obligation capital notes		(365,000)	
Loans payable		(435,276)	
Net OPEB liabilities		(264,613)	
Net pension liability		(9,923,807)	
Compensated absences		(825,577)	
		(14,535,055)	
<b>Net Position of Governmental Activities (Exhibit 1)</b>			<b>\$ 57,261,960</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<b>General</b>	<b>Road and Bridge</b>
<b>Revenues</b>		
Taxes	\$ 4,546,156	\$ 1,217,519
Special assessments	86,796	-
Licenses and permits	13,719	-
Intergovernmental	1,060,073	5,672,037
Charges for services	800,110	428,284
Fines and forfeits	988	-
Gifts and contributions	2,972	-
Investment earnings	175,242	-
Miscellaneous	380,704	72,010
	<b>\$ 7,066,760</b>	<b>\$ 7,389,850</b>
<b>Expenditures</b>		
<b>Current</b>		
General government	\$ 3,466,197	\$ -
Public safety	2,282,616	-
Highways and streets	-	7,545,486
Sanitation	-	-
Human services	-	-
Health	-	-
Culture and recreation	89,001	1,283,022
Conservation of natural resources	461,600	-
Economic development	121,339	-
<b>Intergovernmental</b>	-	223,548
<b>Capital outlay</b>	112,990	-
<b>Debt service</b>		
Principal	128,512	-
Interest	7,146	-
Administrative charges	-	-
	<b>\$ 6,669,401</b>	<b>\$ 9,052,056</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 397,359</b>	<b>\$ (1,662,206)</b>
<b>Other Financing Sources (Uses)</b>		
Transfers in	\$ -	\$ 380,000
Transfers out	(385,782)	-
Loan issued	62,524	-
	<b>\$ (323,258)</b>	<b>\$ 380,000</b>
<b>Net Change in Fund Balances</b>	<b>\$ 74,101</b>	<b>\$ (1,282,206)</b>
<b>Fund Balances - January 1</b>	<b>5,925,446</b>	<b>2,155,867</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>142,939</b>
	<b>\$ 5,999,547</b>	<b>\$ 1,016,600</b>
<b>Fund Balances - December 31</b>	<b>\$ 5,999,547</b>	<b>\$ 1,016,600</b>

**EXHIBIT 5**

<u>Human Services</u>	<u>County Ditch</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 1,959,687	\$ -	\$ 424,023	\$ 602,692	\$ 8,750,077
-	140,347	-	170,049	397,192
-	-	-	-	13,719
2,560,813	-	28,822	105,981	9,427,726
352,208	-	-	4,448	1,585,050
-	-	-	6,190	7,178
-	-	-	5,807	8,779
-	-	-	-	175,242
238,394	2,307	-	12,367	705,782
<b>\$ 5,111,102</b>	<b>\$ 142,654</b>	<b>\$ 452,845</b>	<b>\$ 907,534</b>	<b>\$ 21,070,745</b>
\$ -	\$ -	\$ -	\$ -	\$ 3,466,197
-	-	-	-	2,282,616
-	-	-	-	7,545,486
-	-	-	231,376	231,376
4,660,071	-	-	-	4,660,071
584,481	-	-	-	584,481
-	-	-	617,578	1,989,601
-	181,229	-	-	642,829
-	-	-	-	121,339
-	-	-	-	223,548
-	-	-	-	112,990
-	-	385,000	-	513,512
-	-	91,673	-	98,819
-	-	2,565	-	2,565
<b>\$ 5,244,552</b>	<b>\$ 181,229</b>	<b>\$ 479,238</b>	<b>\$ 848,954</b>	<b>\$ 22,475,430</b>
<b>\$ (133,450)</b>	<b>\$ (38,575)</b>	<b>\$ (26,393)</b>	<b>\$ 58,580</b>	<b>\$ (1,404,685)</b>
\$ -	\$ -	\$ -	\$ 5,782	\$ 385,782
-	-	-	-	(385,782)
-	-	-	-	62,524
<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,782</b>	<b>\$ 62,524</b>
<b>\$ (133,450)</b>	<b>\$ (38,575)</b>	<b>\$ (26,393)</b>	<b>\$ 64,362</b>	<b>\$ (1,342,161)</b>
2,802,236	(1,771,665)	489,854	1,394,694	10,996,432
-	-	-	-	142,939
<b>\$ 2,668,786</b>	<b>\$ (1,810,240)</b>	<b>\$ 463,461</b>	<b>\$ 1,459,056</b>	<b>\$ 9,797,210</b>

**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, 2016**

**Net change in fund balances - total governmental funds (Exhibit 5) \$ (1,342,161)**

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

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

Capital outlay expenditures	\$ 6,594,206	
Depreciation expense	(1,827,599)	4,766,607

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

Decrease in unavailable revenue for taxes and special assessments	\$ (99,479)	
Increase in unavailable revenue for grants and allotments	421,638	322,159

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 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	\$ (62,524)	
Repayment of debt principal	513,512	
Amortization of premium/discount on debt	(711)	450,277

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	\$ 142,939	
Change in accrued interest payable	3,856	
Change in OPEB liabilities	(50,491)	
Change in compensated absences	(10,613)	
Change in net pension liability	(4,851,812)	
Change in net deferred pension outflows	4,281,074	
Change in net deferred pension inflows	(414,504)	(899,551)

**Change in Net Position of Governmental Activities (Exhibit 2) \$ 3,297,331**



**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT 7*

**BUDGETARY COMPARISON STATEMENT  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 4,465,914	\$ 4,465,914	\$ 4,546,156	\$ 80,242
Special assessments	63,000	63,000	86,796	23,796
Licenses and permits	12,650	12,650	13,719	1,069
Intergovernmental	990,862	990,862	1,060,073	69,211
Charges for services	844,415	844,415	800,110	(44,305)
Fines and forfeits	-	-	988	988
Gifts and contributions	7,000	7,000	2,972	(4,028)
Investment earnings	100,000	100,000	175,242	75,242
Miscellaneous	268,696	268,696	380,704	112,008
<b>Total Revenues</b>	<b>\$ 6,752,537</b>	<b>\$ 6,752,537</b>	<b>\$ 7,066,760</b>	<b>\$ 314,223</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
County commissioners	\$ 215,195	\$ 215,195	\$ 187,266	\$ 27,929
Court administrator	35,500	35,500	39,425	(3,925)
Law library	15,000	15,000	4,936	10,064
County auditor	324,868	324,868	336,804	(11,936)
License center	101,192	101,192	109,915	(8,723)
County treasurer	-	-	291	(291)
Personnel	96,526	96,526	93,117	3,409
Central services	147,911	147,911	149,497	(1,586)
Elections	35,400	35,400	35,231	169
Information services	333,830	333,830	279,094	54,736
County attorney	276,277	276,277	260,736	15,541
Attorney's contingent	7,500	7,500	2,000	5,500
County recorder	203,770	203,770	235,826	(32,056)
County assessor	345,810	345,810	355,960	(10,150)
Building maintenance	325,547	325,547	311,156	14,391
Veterans service	129,451	129,451	120,307	9,144
Motor pool	50,000	50,000	13,874	36,126
Public transit	486,875	486,875	431,647	55,228
Other general government	412,408	412,408	499,069	(86,661)
Appropriations	-	-	46	(46)
<b>Total general government</b>	<b>\$ 3,543,060</b>	<b>\$ 3,543,060</b>	<b>\$ 3,466,197</b>	<b>\$ 76,863</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

***EXHIBIT 7  
(Continued)***

**BUDGETARY COMPARISON STATEMENT  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Public safety</b>				
County sheriff	\$ 1,448,536	\$ 1,448,536	\$ 1,366,243	\$ 82,293
Sheriff's contingent	5,000	5,000	-	5,000
Jail	550,520	550,520	572,534	(22,014)
E-911 and radio maintenance	82,761	82,761	78,115	4,646
County coroner	30,000	30,000	22,137	7,863
Court services	188,544	188,544	172,652	15,892
Emergency management	73,674	73,674	57,236	16,438
Public Health Emergency Preparedness	17,033	17,033	13,699	3,334
<b>Total public safety</b>	<b><u>\$ 2,396,068</u></b>	<b><u>\$ 2,396,068</u></b>	<b><u>\$ 2,282,616</u></b>	<b><u>\$ 113,452</u></b>
<b>Culture and recreation</b>				
County parks	\$ 28,300	\$ 28,300	\$ 50,501	\$ (22,201)
Historical society	38,500	38,500	38,500	-
<b>Total culture and recreation</b>	<b><u>\$ 66,800</u></b>	<b><u>\$ 66,800</u></b>	<b><u>\$ 89,001</u></b>	<b><u>\$ (22,201)</u></b>
<b>Conservation of natural resources</b>				
Environmental services	\$ 268,338	\$ 268,338	\$ 221,582	\$ 46,756
County extension	89,591	89,591	87,031	2,560
Agricultural society/fair grounds	45,300	45,300	58,820	(13,520)
Soil and water conservation	22,005	22,005	50,000	(27,995)
Local water plan block grant	67,701	67,701	44,167	23,534
<b>Total conservation of natural resources</b>	<b><u>\$ 492,935</u></b>	<b><u>\$ 492,935</u></b>	<b><u>\$ 461,600</u></b>	<b><u>\$ 31,335</u></b>
<b>Economic development</b>				
Employment and training	\$ 75,378	\$ 75,378	\$ 72,839	\$ 2,539
Economic development	48,000	48,000	48,500	(500)
<b>Total economic development</b>	<b><u>\$ 123,378</u></b>	<b><u>\$ 123,378</u></b>	<b><u>\$ 121,339</u></b>	<b><u>\$ 2,039</u></b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

***EXHIBIT 7  
(Continued)***

**BUDGETARY COMPARISON STATEMENT  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures (Continued)</b>				
<b>Capital outlay</b>				
General government	\$ 180,771	\$ 180,771	\$ 112,990	\$ 67,781
<b>Debt service</b>				
Principal	\$ 99,389	\$ 99,389	\$ 128,512	\$ (29,123)
Interest	8,216	8,216	7,146	1,070
<b>Total debt service</b>	<b>\$ 107,605</b>	<b>\$ 107,605</b>	<b>\$ 135,658</b>	<b>\$ (28,053)</b>
<b>Total Expenditures</b>	<b>\$ 6,910,617</b>	<b>\$ 6,910,617</b>	<b>\$ 6,669,401</b>	<b>\$ 241,216</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ (158,080)</b>	<b>\$ (158,080)</b>	<b>\$ 397,359</b>	<b>\$ 555,439</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	\$ (380,000)	\$ (380,000)	\$ (385,782)	\$ (5,782)
Proceeds from loan	-	-	62,524	62,524
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (380,000)</b>	<b>\$ (380,000)</b>	<b>\$ (323,258)</b>	<b>\$ 56,742</b>
<b>Net Change in Fund Balance</b>	<b>\$ (538,080)</b>	<b>\$ (538,080)</b>	<b>\$ 74,101</b>	<b>\$ 612,181</b>
<b>Fund Balance - January 1</b>	<b>5,925,446</b>	<b>5,925,446</b>	<b>5,925,446</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 5,387,366</b>	<b>\$ 5,387,366</b>	<b>\$ 5,999,547</b>	<b>\$ 612,181</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT 8*

**BUDGETARY COMPARISON STATEMENT  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,230,574	\$ 1,230,574	\$ 1,217,519	\$ (13,055)
Intergovernmental	7,071,961	7,071,961	5,672,037	(1,399,924)
Charges for services	588,000	588,000	428,284	(159,716)
Investment earnings	1,000	1,000	-	(1,000)
Miscellaneous	145,410	145,410	72,010	(73,400)
<b>Total Revenues</b>	<b>\$ 9,036,945</b>	<b>\$ 9,036,945</b>	<b>\$ 7,389,850</b>	<b>\$ (1,647,095)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 457,890	\$ 457,890	\$ 315,278	\$ 142,612
Maintenance	2,114,656	2,114,656	2,417,975	(303,319)
Construction	3,171,984	3,171,984	3,626,963	(454,979)
Equipment maintenance and shop	1,002,780	1,002,780	824,770	178,010
Other	931,470	931,470	360,500	570,970
<b>Total highways and streets</b>	<b>\$ 7,678,780</b>	<b>\$ 7,678,780</b>	<b>\$ 7,545,486</b>	<b>\$ 133,294</b>
<b>Culture and recreation</b>				
Trails	1,567,570	1,567,570	1,283,022	284,548
<b>Intergovernmental</b>				
Highways and streets	220,000	220,000	223,548	(3,548)
<b>Total Expenditures</b>	<b>\$ 9,466,350</b>	<b>\$ 9,466,350</b>	<b>\$ 9,052,056</b>	<b>\$ 414,294</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (429,405)</b>	<b>\$ (429,405)</b>	<b>\$ (1,662,206)</b>	<b>\$ (1,232,801)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	380,000	380,000	380,000	-
<b>Net Change in Fund Balance</b>	<b>\$ (49,405)</b>	<b>\$ (49,405)</b>	<b>\$ (1,282,206)</b>	<b>\$ (1,232,801)</b>
<b>Fund Balance - January 1</b>	<b>2,155,867</b>	<b>2,155,867</b>	<b>2,155,867</b>	<b>-</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>-</b>	<b>142,939</b>	<b>142,939</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,106,462</b>	<b>\$ 2,106,462</b>	<b>\$ 1,016,600</b>	<b>\$ (1,089,862)</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT 9*

**BUDGETARY COMPARISON STATEMENT  
HUMAN SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,962,247	\$ 1,962,247	\$ 1,959,687	\$ (2,560)
Intergovernmental	2,794,558	2,794,558	2,560,813	(233,745)
Charges for services	431,400	431,400	352,208	(79,192)
Miscellaneous	169,798	169,798	238,394	68,596
<b>Total Revenues</b>	<b>\$ 5,358,003</b>	<b>\$ 5,358,003</b>	<b>\$ 5,111,102</b>	<b>\$ (246,901)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 1,097,733	\$ 1,097,733	\$ 1,074,814	\$ 22,919
Social services	3,792,361	3,792,361	3,585,257	207,104
<b>Total human services</b>	<b>\$ 4,890,094</b>	<b>\$ 4,890,094</b>	<b>\$ 4,660,071</b>	<b>\$ 230,023</b>
<b>Health</b>				
Community health services	617,909	617,909	584,481	33,428
<b>Total Expenditures</b>	<b>\$ 5,508,003</b>	<b>\$ 5,508,003</b>	<b>\$ 5,244,552</b>	<b>\$ 263,451</b>
<b>Net Change in Fund Balance</b>	<b>\$ (150,000)</b>	<b>\$ (150,000)</b>	<b>\$ (133,450)</b>	<b>\$ 16,550</b>
<b>Fund Balance - January 1</b>	<b>2,802,236</b>	<b>2,802,236</b>	<b>2,802,236</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,652,236</b>	<b>\$ 2,652,236</b>	<b>\$ 2,668,786</b>	<b>\$ 16,550</b>

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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, 2016**

<u>Assets</u>	
Cash and pooled investments	\$ 430,166
Accrued interest	<u>100</u>
<b>Total Assets</b>	<b><u><u>\$ 430,266</u></u></b>
 <u>Liabilities</u>	
Accounts payable	\$ 40,757
Due to other governments	<u>389,509</u>
<b>Total Liabilities</b>	<b><u><u>\$ 430,266</u></u></b>

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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016**

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1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as of and for the year ended December 31, 2016. 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.

A. Financial Reporting Entity

Watonwan County was established February 25, 1860, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Joint Ventures

The County participates in joint ventures described in Note 6.B. The County also participates in jointly-governed organizations described in Note 6.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 are presented on a consolidated basis and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. County-Wide Statements (Continued)

long-term debt and obligations. The County's net position is reported in three parts: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. The County first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

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

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 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.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

The Debt Service Fund is used to account for the 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.

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 full accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Shared revenues are generally recognized in the period the appropriation goes into effect. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

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

D. Assets, Liabilities, 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 Auditor/Treasurer for the purpose of increasing earnings through investment activities. Investments are reported at their fair value at December 31, 2016. A market approach is used to value all investments other than external investment pools, which are measured at the net asset value per share. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds may receive investment earnings based on other state statutes, grant agreements, contracts, or bond covenants. Pooled investment earnings for 2016 were \$175,242.

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 investment in the pool is measured at the net asset value per share provided by the pool.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

2. Receivables and Payables

Activities between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (the current portion of interfund loans) or “advances to/from other funds” (the noncurrent portion of interfund loans). 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.

Special assessments receivable consist of delinquent special assessments payable in the years 2011 through 2016 and noncurrent special assessments payable in 2017 and after. Unpaid special assessments at December 31 are classified in the financial statements as delinquent special assessments.

No allowance for accounts receivable and uncollectible taxes/special assessments has been provided because such amounts are not expected to be material.

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**

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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 acquisition value.

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. The current portion of this liability is estimated based on the vacation, compensation time, and a percentage of the vested sick balance at year-end. 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**

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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 reports 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 has one item, deferred pension outflows, which qualifies for reporting in this category. The deferred pension outflows consist of pension plan contributions paid subsequent to the measurement date, differences between expected and actual pension plan economic experience, changes in actuarial assumptions, differences between projected and actual earnings on pension plan investments, and pension plan changes in proportionate share. No deferred outflows of resources affect the governmental funds financial statements in the current year.

In addition to liabilities, the statement of financial position reports 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 three items, unavailable revenue, advanced

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

7. Deferred Outflows/Inflows of Resources (Continued)

allotments, and deferred pension inflows, which qualify for reporting in this category. The County reports unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Unavailable revenue arises only under a modified accrual basis of accounting and, accordingly, 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. The County reports advanced allotments for state aid received by the County not yet appropriated by the State of Minnesota. Advanced allotments are reported in the governmental funds balance sheet and on the county-wide statement of net position. This amount is deferred and recognized when the timing requirements have been met. Deferred pension inflows arise only under an accrual basis of accounting and, accordingly, are reported only in the statement of net position. This amount consists of differences between expected and actual pension plan economic experience and also pension plan changes in proportionate share.

8. Pension Plan

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year-end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates, and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

9. Unearned Revenue

Governmental funds and county-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

10. Classification of Net Position

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

Net investment in capital assets - the amount 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 net position - the amount 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 net position - the amount of net position that does not meet the definition of restricted or net investment in capital assets.

11. 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**

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1. Summary of Significant Accounting Policies

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

11. 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 (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 (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/Treasurer 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**

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1. Summary of Significant Accounting Policies

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

12. 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 certain estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources; 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 accounting principles generally accepted in the United States of America for all governmental funds, except the County Ditch Special Revenue Fund. 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/Treasurer so that a budget can be prepared. Before October 31, the proposed budget is presented to the County Board for review. The Board holds public hearings, and a final budget must be prepared and adopted no later than December 31.

The appropriated budget is prepared by fund, function, and department. 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**

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2. Stewardship, Compliance, and Accountability (Continued)

B. Excess of Expenditures Over Budget

The fund shown below had expenditures in excess of budget for the year ended December 31, 2016.

	Expenditures	Final Budget	Excess
Debt Service Fund	\$ 479,238	\$ 478,672	\$ 566

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

C. Deficit Fund Equity - County Ditch Special Revenue Fund

The County Ditch Special Revenue Fund has a deficit fund balance of \$1,810,240. The deficit will be eliminated with future special assessment levies against the benefited properties. The following is a summary of the individual ditch systems:

29 ditches with positive fund balances	\$ 163,969
10 ditches with deficit fund balances	(1,974,209)
Total Fund Balance	\$ (1,810,240)

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	\$ 10,354,864
Fiduciary funds	
Cash and pooled investments	
Agency funds	430,166
Total Cash and Investments	\$ 10,785,030

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. It is 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, 2016, the County's deposits were not exposed to custodial credit risk.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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) time deposits fully insured by the Federal Deposit Insurance Corporation or 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.

As of December 31, 2016, all County investments, valued at \$53,596, were in the MAGIC Fund’s MAGIC Portfolio.



**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

MAGIC is a local government investment pool which is quoted at a net asset value (NAV). The County invests in this pool for the purpose of the joint investment of the County's money with those of other counties to enhance the investment earnings accruing to each member.

The MAGIC Portfolio is valued using amortized cost. Shares of the MAGIC Portfolio are available to be redeemed upon proper notice without restrictions under normal operating conditions. There are no limits to the number of redemptions that can be made as long as the County has a sufficient number of shares to meet their redemption request. The Fund's Board of Trustees can suspend the right of withdrawal or postpone the date of payment if the Trustees determine that there is an emergency that makes the sale of a Portfolio's securities or determination of its net asset value not reasonably practical.

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**

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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, 2016, 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, 2016, all of the County's investments were in the MAGIC Fund.

2. Receivables

Receivables as of December 31, 2016, for the County are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Taxes - delinquent	\$ 100,790	\$ -
Special assessments - delinquent	18,656	-
Special assessments - noncurrent	1,077,055	995,254
Accounts	197,262	-
Accrued interest	34,442	-
Due from other governments	1,757,306	70,500
Total	\$ 3,185,511	\$ 1,065,754

**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, 2016, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 686,771	\$ -	\$ -	\$ 686,771
Construction in progress	1,106,875	1,068,979	142,678	2,033,176
Total capital assets not depreciated	\$ 1,793,646	\$ 1,068,979	\$ 142,678	\$ 2,719,947
Capital assets depreciated				
Buildings	\$ 8,864,924	\$ -	\$ -	\$ 8,864,924
Land improvements	180,253	733,522	-	913,775
Machinery, furniture, and equipment	6,395,780	644,679	194,563	6,845,896
Infrastructure	60,951,111	4,289,704	-	65,240,815
Total capital assets depreciated	\$ 76,392,068	\$ 5,667,905	\$ 194,563	\$ 81,865,410
Less: accumulated depreciation for				
Buildings	\$ 3,579,258	\$ 202,066	\$ -	\$ 3,781,324
Land improvements	44,206	16,348	-	60,554
Machinery, furniture, and equipment	4,395,948	340,919	194,563	4,542,304
Infrastructure	19,344,784	1,268,266	-	20,613,050
Total accumulated depreciation	\$ 27,364,196	\$ 1,827,599	\$ 194,563	\$ 28,997,232
Total capital assets depreciated, net	\$ 49,027,872	\$ 3,840,306	\$ -	\$ 52,868,178
Total Capital Assets, Net	\$ 50,821,518	\$ 4,909,285	\$ 142,678	\$ 55,588,125

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

General government	\$ 228,628
Public safety	102,119
Highways and streets, including depreciation of infrastructure assets	1,442,347
Sanitation	666
Human services	41,630
Culture and recreation	11,273
Conservation of natural resources	936
Total Depreciation Expense	\$ 1,827,599

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2016, is as follows:

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	County Ditch	\$ 370	Per diem payments
	Human Services	42,654	Reimbursement for services
Total due to General Fund		<u>\$ 43,024</u>	
Road and Bridge	General	\$ 12,321	Fuel and reimbursement for services and salaries
	Human Services	713	Snow removal
	County Ditch	11,871	Reimbursement for services
	Solid Waste	34	Reimbursement for services
Total due to Road and Bridge Fund		<u>\$ 24,939</u>	
Human Services	General	\$ 14,937	Shared expense for professional services
Total Due To/From Other Funds		<u><u>\$ 82,900</u></u>	

The interfund receivables and payables are expected to be paid within one year of December 31, 2016.

2. Advances From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	County Ditch	<u>\$ 1,945,000</u>

The advance to the County Ditch Special Revenue Fund is to provide financing for improvement project costs of the ditch systems. This balance will be paid from future ditch special assessments.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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3. Detailed Notes on All Funds

B. Interfund Receivables and Payables (Continued)

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2016, consisted of the following:

Transfers to Road and Bridge Fund from General Fund	\$ 380,000	Funds for the purchase of two dump trucks and snow plows
Transfers to County Library Fund from General Fund	<u>5,782</u>	Interest distribution
Total Interfund Transfers	<u>\$ 385,782</u>	

C. Liabilities and Deferred Inflows of Resources

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. During 2016, the County made no contributions for this benefit.

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 2016, there were approximately 138 participants in the plan, including 1 retiree. The implicit rate subsidy amount was determined by an actuarial study to be \$26,531 for 2016.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

1. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation

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

ARC	\$	80,246
Interest on net OPEB obligation		9,635
Adjustment to ARC		(12,859)
		_____
Annual OPEB cost (expense)	\$	77,022
Contributions made		(26,531)
		_____
Increase (decrease) in net OPEB obligation	\$	50,491
Net OPEB obligation - January 1		214,122
		_____
Net OPEB obligation - December 31	\$	264,613

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, 2014, 2015, and 2016, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contributions	Percentage Contributed	Net OPEB Obligations
December 31, 2014	\$ 78,115	\$ 27,847	35.6%	\$ 159,362
December 31, 2015	77,122	22,362	29.0	214,122
December 31, 2016	77,022	26,531	34.4	264,613

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

1. Other Postemployment Benefits (OPEB) (Continued)

Funded Status and Funding Progress

As of January 1, 2014, the most recent actuarial valuation date, the plan was 0.0 percent funded. The actuarial accrued liability for benefits was \$525,973, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$525,973. The covered payroll (annual payroll of active employees covered by the plan) was \$5,577,965, and the ratio of the UAAL to the covered payroll was 9.4 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress - 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, 2014, 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

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

1. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

return on the General Fund. The annual health care cost trend is 7.5 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 10 years. Both rates included a 2.5 percent 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, 2016, was 21 years.

2. Construction Commitments

The County has active construction projects as of December 31, 2016. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities Highway projects	\$ 495,518	\$ 469,059

3. Long-Term Debt

Bonds

Type of Indebtedness	Final Maturity	Installment Amount	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2016
G.O. Capital Improvement Refunding Bonds, Series 2010A	2021	\$165,000 - \$180,000	2.00 - 3.00	\$ 1,650,000	\$ 870,000
G.O. Capital Improvement Crossover Refunding Bonds, Series 2012A	2026	\$50,000 - \$55,000	1.55 - 2.60	625,000	525,000
G.O. Capital Improvement Plan Bonds, Series 2013A	2034	\$60,000 - \$90,000	2.00 - 4.00	1,420,000	1,310,000



**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

3. Long-Term Debt

Bonds (Continued)

Type of Indebtedness	Final Maturity	Installment Amount	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2016
G.O. Capital Notes, Series 2014	2021	\$65,000 - \$75,000	2.29	515,000	365,000
Total				<u>\$ 4,210,000</u>	\$ 3,070,000
Plus: unamortized premium					25,272
Less: unamortized discount					<u>(9,490)</u>
Total General Obligation Bonds, Net					<u>\$ 3,085,782</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.

Type of Indebtedness	Final Maturity	Installment Amount	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2016
Watonwan Watershed Continuation Clean Water Partnership Project, SRF0108	2017	\$28,212	2.00	\$ 541,173	\$ 42,384
Greater Blue Earth and Des Moines River Clean Water Partnership Project, SRF0221	2024	\$17,225	2.00	310,831	196,201
Watonwan Ag Best Management Loan Program	2026	\$3,007 - \$16,633	-	<u>278,327</u>	<u>196,691</u>
Total Loans				<u>\$ 1,130,331</u>	<u>\$ 435,276</u>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

4. Debt Service Requirements

Debt service requirements at December 31, 2016, were as follows:

Year Ending December 31	General Obligation Bonds		Capital Notes	
	Principal	Interest	Principal	Interest
2017	\$ 275,000	\$ 75,717	\$ 75,000	\$ 8,359
2018	280,000	70,138	75,000	6,641
2019	285,000	63,933	75,000	4,924
2020	290,000	56,908	75,000	3,206
2021	295,000	48,945	65,000	1,489
2022 - 2026	620,000	181,527	-	-
2027 - 2031	395,000	93,300	-	-
2032 - 2034	265,000	16,100	-	-
Total	<u>\$ 2,705,000</u>	<u>\$ 606,568</u>	<u>\$ 365,000</u>	<u>\$ 24,619</u>

Year Ending December 31	Loans Payable	
	Principal	Interest
2017	\$ 97,415	\$ 5,463
2018	57,290	4,029
2019	55,269	3,417
2020	56,669	2,793
2021	52,747	2,157
2022 - 2026	115,886	2,525
Total	<u>\$ 435,276</u>	<u>\$ 20,384</u>

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
G.O. Capital Improvement Refunding Bonds, Series 2010A	\$ 1,030,000	\$ -	\$ 160,000	\$ 870,000	\$ 165,000
G.O. Capital Notes, Series 2011	40,000	-	40,000	-	-

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

5. Changes in Long-Term Liabilities (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
G.O. Capital Improvement Crossover Refunding Bonds, Series 2012A	575,000	-	50,000	525,000	50,000
G.O. Capital Improvement Plan Bonds, Series 2013A	1,370,000	-	60,000	1,310,000	60,000
G.O. Capital Notes, Series 2014	440,000	-	75,000	365,000	75,000
Plus: unamortized premium on bonds	26,888	-	1,616	25,272	-
Less: unamortized discount on bonds	(11,817)	-	(2,327)	(9,490)	-
<b>Total bonds payable</b>	<b>\$ 3,470,071</b>	<b>\$ -</b>	<b>\$ 384,289</b>	<b>\$ 3,085,782</b>	<b>\$ 350,000</b>
Loans payable	501,264	62,524	128,512	435,276	97,415
Compensated absences	814,964	759,155	748,542	825,577	513,490
<b>Total Long-Term Liabilities</b>	<b>\$ 4,786,299</b>	<b>\$ 821,679</b>	<b>\$ 1,261,343</b>	<b>\$ 4,346,635</b>	<b>\$ 960,905</b>

Compensated absences, OPEB liability, and pension liabilities are generally liquidated by the General Fund, and the Road and Bridge, Human Services, and County Library Special Revenue Funds.

6. Unearned Revenue/Deferred Inflows of Resources

Unearned revenue and deferred inflows of resources as of December 31, 2016, for the County's governmental funds are as follows:

	Unearned Revenue	Deferred Inflows of Resources
Advanced allotments		
Highway allotments that were received in advance	\$ -	\$ 905,026
Unavailable revenue		
Taxes and special assessments, delinquent and noncurrent	-	1,152,622
Highway allotments that do not provide current financial resources	-	641,632
Charges for services, grants, and reimbursements	-	546,304
Grants	109,557	-
<b>Total Governmental Funds</b>	<b>\$ 109,557</b>	<b>\$ 3,245,584</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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3. Detailed Notes on All Funds (Continued)

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.

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 \$500,000 per claim in 2016 and 2017. 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 Pension Plans

1. 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 Plan, the Public Employees Police and Fire Plan, and the Local Government Correctional Service Retirement Plan (the Public Employees Correctional Plan), which are cost-sharing, multiple-employer retirement plans.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Pension Plans

1. Plan Description (Continued)

These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

The General Employees Retirement Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

Police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Plan (accounted for in the Police and Fire Fund). For members first hired after June 30, 2010, but before July 1, 2014, benefits vest on a graduated schedule starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years. Benefits for members first hired after June 30, 2014, vest on a prorated basis from 50 percent after 10 years and increasing 5 percent for each year of service until fully vested after 20 years.

Local government employees of a county-administered facility who are responsible for the direct security, custody, and control of the county correctional facility and its inmates are covered by the Public Employees Correctional Plan (accounted for in the Correctional Fund). For members hired after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years.

2. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual 1.0 percent

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

The benefit provisions stated in the following paragraph 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 their public service.

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 Plan Coordinated and Basic Plan members. Members hired prior to July 1, 1989, receive 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. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service 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. Only Method 2 is used for members hired after June 30, 1989. For Public Employees Police and Fire Plan members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Plan members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For General Employees Retirement Plan members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. For Public Employees Police and Fire Plan and Public Employees Correctional Plan members, normal retirement age is 55, and for members who were hired prior to July 1, 1989, a full

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

annuity is available when age plus years of service equal 90. Disability benefits are available for vested members and are based on years of service and average high-five salary.

3. Contributions

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. General Employees Retirement Plan Basic members and Coordinated members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in 2016. Public Employees Police and Fire Plan members were required to contribute 10.80 percent of their annual covered salary in 2016. Public Employees Correctional Plan members were required to contribute 5.83 percent of their annual covered salary in 2016.

In 2016, the County was required to contribute the following percentages of annual covered salary:

General Employees Retirement Plan	
Basic Plan members	11.78%
Coordinated Plan members	7.50
Public Employees Police and Fire Plan	16.20
Public Employees Correctional Plan	8.75

The employee and employer contribution rates did not change from the previous year.

The County's contributions for the year ended December 31, 2016, to the pension plans were:

General Employees Retirement Plan	\$	407,922
Public Employees Police and Fire Plan		84,828
Public Employees Correctional Plan		23,129

The contributions are equal to the contractually required contributions as set by state statute.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Pension Plans (Continued)

4. Pension Costs

General Employees Retirement Plan

At December 31, 2016, the County reported a liability of \$7,088,327 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.0873 percent. It was 0.0858 percent measured as of June 30, 2015. The County recognized pension expense of \$969,305 for its proportionate share of the General Employees Retirement Plan's pension expense.

The County also recognized \$27,622 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$6 million to the General Employees Retirement Plan each year, starting September 15, 2015, through September 15, 2031.

County's proportionate share of the net pension liability	\$ 7,088,327
State of Minnesota's proportionate share of the net pension liability associated with the County	<u>92,639</u>
Total	<u>\$ 7,180,966</u>



**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

The County reported its proportionate share of the General Employees Retirement Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 573,208
Changes in actuarial assumptions	1,387,901	-
Difference between projected and actual investment earnings	1,339,875	-
Changes in proportion	58,303	180,854
Contributions paid to PERA subsequent to the measurement date	207,050	-
Total	\$ 2,993,129	\$ 754,062

The \$207,050 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2017	\$ 536,940
2018	536,940
2019	702,095
2020	256,042

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Police and Fire Plan

At December 31, 2016, the County reported a liability of \$2,287,509 for its proportionate share of the Public Employees Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.057 percent. It was 0.053 percent measured as of June 30, 2015. The County recognized pension expense of \$409,704 for its proportionate share of the Public Employees Police and Fire Plan's pension expense.

The County also recognized \$5,130 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Public Employees Police and Fire Plan. Legislation requires the State of Minnesota to contribute \$9 million to the Public Employees Police and Fire Plan each year, starting in fiscal year 2014, until the plan is 90 percent funded.

The County reported its proportionate share of the Public Employees Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 256,525
Changes in actuarial assumptions	1,258,916	-
Difference between projected and actual investment earnings	343,151	-
Changes in proportion	66,675	-
Contributions paid to PERA subsequent to the measurement date	42,185	-
Total	\$ 1,710,927	\$ 256,525

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Plan (Continued)

The \$42,185 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2017	\$ 303,693
2018	303,693
2019	303,693
2020	277,462
2021	223,676

Public Employees Correctional Plan

At December 31, 2016, the County reported a liability of \$547,971 for its proportionate share of the Public Employees Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.15 percent. It was 0.15 percent measured as of June 30, 2015. The County recognized pension expense of \$154,834 for its proportionate share of the Public Employees Correctional Plan's pension expense.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Correctional Plan (Continued)

The County reported its proportionate share of the Public Employees Correctional Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 429	\$ 5,919
Changes in actuarial assumptions	349,124	-
Difference between projected and actual investment earnings	61,567	-
Contributions paid to PERA subsequent to the measurement date	11,163	-
Total	\$ 422,283	\$ 5,919

The \$11,163 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2017	\$ 130,158
2018	130,158
2019	133,118
2020	11,767

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2016, was \$1,533,843.

5. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the individual entry age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.50 percent per year
Active member payroll growth	3.25 percent per year
Investment rate of return	7.50 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants in the General Employees Retirement Plan were based on RP-2014 tables, while mortality rates for Public Employees Police and Fire Plan and Public Employees Correctional Plan were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Plan and the Public Employees Police and Fire Plan, cost of living benefit increases for retirees are assumed to be 1.0 percent. Cost of living benefit increases for retirees are assumed to be 2.5 percent for the Public Employees Correctional Plan.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Plan was for the period 2008 through 2015. The experience study for the Public Employees Police and Fire Plan was for the period 2004 through 2009. The experience study for the Public Employees Correctional Plan was for the period 2006 through 2011.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

On August 16, 2016, an updated experience study was done for PERA's Public Employees Police and Fire Plan for the period 2011 through 2015, which would result in a larger pension liability. However, PERA will implement the changes in assumptions for its June 30, 2017, estimate of pension liability.

The long-term expected rate of return on pension plan investments is 7.5 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	45%	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2016, a reduction of the 7.90 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Retirement Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Pension Plans

6. Discount Rate (Continued)

determine the total pension liability. In the Public Employees Police and Fire Plan and the Public Employees Correctional Plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056, and June 30, 2058, respectively. Beginning in fiscal years ended June 30, 2057, for the Police and Fire Plan and June 30, 2059, for the Public Employees Correctional Plan, when projected benefit payments exceed the Plans' projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85 percent based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60 percent for the Public Employees Police and Fire Plan and 5.31 percent for the Public Employees Correctional Plan was determined that produced approximately the same present value of the projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50 percent applied to all years of projected benefits through the point of asset depletion and 2.85 percent thereafter.

7. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2016:

General Employees Retirement Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions

General Employees Retirement Plan (Continued)

- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Public Employees Police and Fire Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.60 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Public Employees Correctional Plan

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.31 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.



**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans (Continued)

8. Pension Liability Sensitivity

The following presents the County’s proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what the County’s proportionate share of the net pension liability would be if it were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

	Proportionate Share of the					
	General Employees Retirement Plan		Public Employees Police and Fire Plan		Public Employees Correctional Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	6.50%	\$ 10,067,525	4.60%	\$ 3,202,209	4.31%	\$ 825,075
Current	7.50	7,088,327	5.60	2,287,509	5.31	547,971
1% Increase	8.50	4,634,279	6.60	1,540,130	6.31	331,638

9. Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

B. Defined Contribution Plan

Five elected officials of Watonwan County are covered by the Public Employees Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The plan is established and administered in accordance with Minn. Stat. ch. 353D, which may be amended by the state legislature. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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4. Pension Plans

B. Defined Contribution Plan (Continued)

contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. 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 Watonwan County during the year ended December 31, 2016, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 5,270	\$ 5,270
Percentage of covered payroll	5%	5%

5. Conduit Debt

The Red Rock Rural Water System (RRRWS) was established by the Fifth Judicial District under Minn. Stat. §§ 116A.01 through 116A.26 to serve as a multi-county water system in the Counties of Brown, Cottonwood, Jackson, Lyon, Martin, Murray, Nobles, Redwood, and Watonwan.

On June 1, 2016, the County issued \$1,155,000 of G.O. Water Revenue Crossover Refunding Bonds, Series 2016A, on behalf of the RRRWS. These bonds will be used to retire the outstanding bonds from the RRRWS \$1,600,000 G.O. Water Revenue Refunding Bonds, Series 2009. The proceeds from the 2016 bonds have been invested by the escrow agent and the proceeds and earnings are being used to pay interest on the 2016 bonds until January 1, 2019, at which time the 2009 bonds will be retired. The RRRWS is responsible for the payment of all costs, principal, and interest relating to these bonds through special assessments on the properties being serviced or the net revenues of the water system. The County is not obligated in any manner for the repayment of the bonds.

The outstanding principal balances for the 2016 and 2009 bonds were \$1,155,000 and \$1,190,000, respectively, on December 31, 2016. The payments and balances of the outstanding indebtedness for the water revenue and refunding bonds issued by Watonwan

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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5. Conduit Debt (Continued)

County on behalf of RRRWS have been reflected in the financial statements of the RRRWS and, accordingly, are only mentioned in this note accompanying the financial statements of Watonwan County.

6. 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.

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. The primary responsibility of the Task Force is to detect, investigate, gather evidence, and apprehend drug traffickers, as well as assist in violent crimes and gang-related investigation within the geographic boundaries of the communities that comprise the Task Force. The Task Force communities include the following jurisdictions: Cities of Mankato, North Mankato, St. James, St. Peter, and Madelia, and the Counties of Blue Earth, Martin, Nicollet, and Watonwan. 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. During the year, the County contributed \$11,935 to the Task Force.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Red Rock Rural Water System

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

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

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 \$1,000 to the Board.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Rural Minnesota Energy Board (Continued)

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

South Central Minnesota Regional Emergency Communications Board

The South Central Minnesota Regional Emergency Communications Board (formally known as 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 Communications Board. During the year, Watonwan County contributed \$761 to the 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, Le Sueur, Martin, Nicollet, Sibley, and Waseca Counties, creating the South Central Workforce Service Area Joint Powers Board. The agreement is authorized by Minn. Stat. § 471.59. The Board comprises 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  
ST. JAMES, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

South Central Workforce Service Area Joint Powers Board (Continued)

Watonwan County made no contributions to this organization in 2016.

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

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.

The Collaborative is financed by Local Collaborative Time Study (LCTS) funds and program reimbursements. 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. During 2016, Watonwan County made \$16,136 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, the Three Counties for Kids Collaborative Board of Directors shall distribute all property, real and personal, at the time of the termination.

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

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Vision for Family and Community Collaborative

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

Control of the Collaborative is vested in a Joint Powers Board. The Joint Powers Board is composed of nine members. Watonwan County Human Services acts as fiscal agent for the Collaborative. The Collaborative is financed by LCTS funds. During 2016, Watonwan County made contributions of \$10,000 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.

C. Jointly-Governed Organizations

Greater Blue Earth River Basin Alliance

The Greater Blue Earth River Basin Alliance establishes goals, policies, and objectives to protect and enhance land and water resources in the Greater Blue Earth River Basin. The Board consists of County Commissioners and members of the Soil and Water Conservation Districts. During the year, Watonwan County paid \$5,624 to the Alliance.

Region Five - Southwest Minnesota Homeland Security Emergency Management Organization

The Region Five - Southwest Minnesota Homeland Security Emergency Management Organization 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 region. Control is vested

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations

Region Five - Southwest Minnesota Homeland Security Emergency Management Organization (Continued)

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. During the year, Watonwan County paid \$15 in membership fees.

Minnesota Counties Computer Cooperative

The Minnesota Counties Computer Cooperative (MCCC) provides computer programming services for the County. During the year, Watonwan County purchased \$87,881 in services from MCCC.

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, Watonwan County paid \$1,560 to the Network.

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. Watonwan County did not contribute to the Joint Powers Board in 2016.



**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

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. Watonwan County did not contribute to SCEMS in 2016.

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, Watonwan County made payments of \$2,808 to IMMTRACK.

D. 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 2016 is \$93,586. The proportionate share of the counties may change for years 2017 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.

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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, 2016**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded Actuarial Accrued Liability (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
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
January 1, 2014	-	525,973	525,973	0.0	5,577,965	9.4

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

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT A-2*

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
PERA GENERAL EMPLOYEES RETIREMENT PLAN  
DECEMBER 31, 2016**

<b>Measurement Date</b>	<b>Employer's Proportion of the Net Pension Liability (Asset)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) (a)</b>	<b>State's Proportionate Share of the Net Pension Liability Associated with Watonwan County (b)</b>	<b>Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)</b>	<b>Covered Payroll (c)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
2016	0.0873%	\$ 7,088,327	\$ 92,639	\$ 7,180,966	\$ 5,419,996	130.78%	68.91%
2015	0.0858	4,446,601	N/A	4,446,601	5,051,691	88.02	78.19

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.  
The measurement date for each year is June 30.  
N/A - Not Applicable

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT A-3*

**SCHEDULE OF CONTRIBUTIONS  
PERA GENERAL EMPLOYEES RETIREMENT PLAN  
DECEMBER 31, 2016**

<b>Year Ending</b>	<b>Statutorily Required Contributions (a)</b>	<b>Actual Contributions in Relation to Statutorily Required Contributions (b)</b>	<b>Contribution (Deficiency) Excess (b - a)</b>	<b>Covered Payroll (c)</b>	<b>Actual Contributions as a Percentage of Covered Payroll (b/c)</b>
2016	\$ 407,922	\$ 407,922	\$ -	\$ 5,438,961	7.50%
2015	381,729	381,729	-	5,089,723	7.50

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.  
The County's year-end is December 31.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**EXHIBIT A-4**

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN  
DECEMBER 31, 2016**

<b>Measurement Date</b>	<b>Employer's Proportion of the Net Pension Liability (Asset)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) (a)</b>	<b>Covered Payroll (b)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
2016	0.057%	\$ 2,287,509	\$ 544,559	420.07%	63.88%
2015	0.053	602,204	489,030	123.14	86.61

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The measurement date for each year is June 30.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**EXHIBIT A-5**

**SCHEDULE OF CONTRIBUTIONS  
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN  
DECEMBER 31, 2016**

<b>Year Ending</b>	<b>Statutorily Required Contributions (a)</b>	<b>Actual Contributions in Relation to Statutorily Required Contributions (b)</b>	<b>Contribution (Deficiency) Excess (b - a)</b>	<b>Covered Payroll (c)</b>	<b>Actual Contributions as a Percentage of Covered Payroll (b/c)</b>
2016	\$ 84,828	\$ 84,828	\$ -	\$ 523,630	16.20%
2015	82,737	82,737	-	510,719	16.20

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The County's year-end is December 31.



**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT A-6*

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
PERA PUBLIC EMPLOYEES CORRECTIONAL PLAN  
DECEMBER 31, 2016**

<b>Measurement Date</b>	<b>Employer's Proportion of the Net Pension Liability (Asset)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) (a)</b>	<b>Covered Payroll (b)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
2016	0.15%	\$ 547,971	\$ 283,457	193.32%	58.16%
2015	0.15	23,190	267,504	8.67	96.95

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The measurement date for each year is June 30.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT A-7*

**SCHEDULE OF CONTRIBUTIONS  
PERA PUBLIC EMPLOYEES CORRECTIONAL PLAN  
DECEMBER 31, 2016**

<b>Year Ending</b>	<b>Statutorily Required Contributions (a)</b>	<b>Actual Contributions in Relation to Statutorily Required Contributions (b)</b>	<b>Contribution (Deficiency) Excess (b - a)</b>	<b>Covered Payroll (c)</b>	<b>Actual Contributions as a Percentage of Covered Payroll (b/c)</b>
2016	\$ 23,129	\$ 23,129	\$ -	\$ 264,332	8.75%
2015	23,436	23,436	-	267,836	8.75

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The County's year-end is December 31.

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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2016**

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Defined Benefit Pension Plans - Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended June 30, 2016:

General Employees Retirement Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Public Employees Police and Fire Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.60 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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Defined Benefit Pension Plans - Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions (Continued)

Public Employees Correctional Plan

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.31 percent.
  
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

**SUPPLEMENTARY INFORMATION**

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**COMBINING AND INDIVIDUAL FUND 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, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 424,643	\$ 424,643	\$ 424,023	\$ (620)
Intergovernmental	28,821	28,821	28,822	1
<b>Total Revenues</b>	<b>\$ 453,464</b>	<b>\$ 453,464</b>	<b>\$ 452,845</b>	<b>\$ (619)</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 385,000	\$ 385,000	\$ 385,000	\$ -
Interest	91,672	91,672	91,673	(1)
Administrative charges	2,000	2,000	2,565	(565)
<b>Total Expenditures</b>	<b>\$ 478,672</b>	<b>\$ 478,672</b>	<b>\$ 479,238</b>	<b>\$ (566)</b>
<b>Net Change in Fund Balance</b>	<b>\$ (25,208)</b>	<b>\$ (25,208)</b>	<b>\$ (26,393)</b>	<b>\$ (1,185)</b>
<b>Fund Balance - January 1</b>	<b>489,854</b>	<b>489,854</b>	<b>489,854</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 464,646</b>	<b>\$ 464,646</b>	<b>\$ 463,461</b>	<b>\$ (1,185)</b>

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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**OTHER GOVERNMENTAL FUNDS**

**NONMAJOR SPECIAL REVENUE FUNDS**

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, 2016**

	<b>Special Revenue Funds</b>		<b>Total</b>
	<b>County Library</b>	<b>Solid Waste</b>	
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 989,411	\$ 473,825	\$ 1,463,236
Taxes receivable - delinquent	6,969	162	7,131
Special assessments receivable - delinquent	-	13,508	13,508
	<b>\$ 996,380</b>	<b>\$ 487,495</b>	<b>\$ 1,483,875</b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 4,081	\$ 20	\$ 4,101
Salaries payable	6,488	41	6,529
Due to other funds	-	34	34
	<b>\$ 10,569</b>	<b>\$ 95</b>	<b>\$ 10,664</b>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue	<b>\$ 4,962</b>	<b>\$ 9,193</b>	<b>\$ 14,155</b>
<b>Fund Balances</b>			
Restricted for library operations from donations	\$ 440,281	\$ -	\$ 440,281
Committed for library operations	540,568	-	540,568
Assigned to solid waste	-	478,207	478,207
	<b>\$ 980,849</b>	<b>\$ 478,207</b>	<b>\$ 1,459,056</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 996,380</b>	<b>\$ 487,495</b>	<b>\$ 1,483,875</b>

**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, 2016**

	<u>Special Revenue Funds</u>		<u>Total</u>
	<u>County Library</u>	<u>Solid Waste</u>	
<b>Revenues</b>			
Taxes	\$ 588,833	\$ 13,859	\$ 602,692
Special assessments	-	170,049	170,049
Intergovernmental	35,899	70,082	105,981
Charges for services	4,448	-	4,448
Fines and forfeits	6,190	-	6,190
Gifts and contributions	5,807	-	5,807
Miscellaneous	1,684	10,683	12,367
<b>Total Revenues</b>	<b>\$ 642,861</b>	<b>\$ 264,673</b>	<b>\$ 907,534</b>
<b>Expenditures</b>			
<b>Current</b>			
Sanitation	\$ -	\$ 231,376	\$ 231,376
Culture and recreation	617,578	-	617,578
<b>Total Expenditures</b>	<b>\$ 617,578</b>	<b>\$ 231,376</b>	<b>\$ 848,954</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 25,283</b>	<b>\$ 33,297</b>	<b>\$ 58,580</b>
<b>Other Financing Sources (Uses)</b>			
Transfers in	5,782	-	5,782
<b>Net Change in Fund Balances</b>	<b>\$ 31,065</b>	<b>\$ 33,297</b>	<b>\$ 64,362</b>
<b>Fund Balances - January 1</b>	<b>949,784</b>	<b>444,910</b>	<b>1,394,694</b>
<b>Fund Balances - December 31</b>	<b>\$ 980,849</b>	<b>\$ 478,207</b>	<b>\$ 1,459,056</b>



**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT C-3*

**BUDGETARY COMPARISON SCHEDULE  
COUNTY LIBRARY SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 589,661	\$ 589,661	\$ 588,833	\$ (828)
Intergovernmental	29,044	29,044	35,899	6,855
Charges for services	3,400	3,400	4,448	1,048
Fines and forfeits	9,600	9,600	6,190	(3,410)
Gifts and contributions	-	-	5,807	5,807
Miscellaneous	-	-	1,684	1,684
<b>Total Revenues</b>	<b>\$ 631,705</b>	<b>\$ 631,705</b>	<b>\$ 642,861</b>	<b>\$ 11,156</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Culture and recreation</b>				
County library	633,205	633,205	617,578	15,627
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ (1,500)</b>	<b>\$ (1,500)</b>	<b>\$ 25,283</b>	<b>\$ 26,783</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	1,500	1,500	5,782	4,282
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 31,065</b>	<b>\$ 31,065</b>
<b>Fund Balance - January 1</b>	<b>949,784</b>	<b>949,784</b>	<b>949,784</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 949,784</b>	<b>\$ 949,784</b>	<b>\$ 980,849</b>	<b>\$ 31,065</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT C-4*

**BUDGETARY COMPARISON SCHEDULE  
SOLID WASTE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 12,615	\$ 12,615	\$ 13,859	\$ 1,244
Special assessments	209,000	209,000	170,049	(38,951)
Intergovernmental	73,027	73,027	70,082	(2,945)
Miscellaneous	14,300	14,300	10,683	(3,617)
<b>Total Revenues</b>	<b>\$ 308,942</b>	<b>\$ 308,942</b>	<b>\$ 264,673</b>	<b>\$ (44,269)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Sanitation</b>				
SCORE	238,630	238,630	231,376	7,254
<b>Net Change in Fund Balance</b>	<b>\$ 70,312</b>	<b>\$ 70,312</b>	<b>\$ 33,297</b>	<b>\$ (37,015)</b>
<b>Fund Balance - January 1</b>	<b>444,910</b>	<b>444,910</b>	<b>444,910</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 515,222</b>	<b>\$ 515,222</b>	<b>\$ 478,207</b>	<b>\$ (37,015)</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**AGENCY FUNDS**

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

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

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

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

Soil and Water Conservation - to account for the funds received and expended for the activities of the Watonwan Soil and Water Conservation District.

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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, 2016**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>AGENCY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 39,168	\$ 2,109,287	\$ 2,104,928	\$ 43,527
<b><u>Liabilities</u></b>				
Due to other governments	\$ 39,168	\$ 2,109,287	\$ 2,104,928	\$ 43,527
 <b><u>VISION FOR FAMILY AND COMMUNITY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 131,284	\$ 131,284	\$ -
<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 131,284	\$ 131,284	\$ -
 <b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 191,584	\$ 17,748,180	\$ 17,663,351	\$ 276,413
<b><u>Liabilities</u></b>				
Due to other governments	\$ 191,584	\$ 17,748,180	\$ 17,663,351	\$ 276,413

**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, 2016**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>CEMETERY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 40,183	\$ 1,190	\$ 716	\$ 40,657
Accrued interest	79	100	79	100
<b>Total Assets</b>	<b>\$ 40,262</b>	<b>\$ 1,290</b>	<b>\$ 795</b>	<b>\$ 40,757</b>
<b><u>Liabilities</u></b>				
Accounts payable	<b>\$ 40,262</b>	<b>\$ 1,290</b>	<b>\$ 795</b>	<b>\$ 40,757</b>
 <b><u>SOIL AND WATER CONSERVATION</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<b>\$ 59,228</b>	<b>\$ 250,712</b>	<b>\$ 240,371</b>	<b>\$ 69,569</b>
<b><u>Liabilities</u></b>				
Due to other governments	<b>\$ 59,228</b>	<b>\$ 250,712</b>	<b>\$ 240,371</b>	<b>\$ 69,569</b>
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 330,163	\$ 20,240,653	\$ 20,140,650	\$ 430,166
Accrued interest	79	100	79	100
<b>Total Assets</b>	<b>\$ 330,242</b>	<b>\$ 20,240,753</b>	<b>\$ 20,140,729</b>	<b>\$ 430,266</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 40,262	\$ 1,290	\$ 795	\$ 40,757
Due to other governments	289,980	20,239,463	20,139,934	389,509
<b>Total Liabilities</b>	<b>\$ 330,242</b>	<b>\$ 20,240,753</b>	<b>\$ 20,140,729</b>	<b>\$ 430,266</b>

## **SCHEDULES**

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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

***EXHIBIT E-1***

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**Appropriations and Shared Revenue**

**State**

Aquatic invasive species prevention aid	\$ 34,035
County program aid	195,729
Disparity reduction aid	5,064
Enhanced 911	82,761
Highway users tax	3,966,440
Market value credit	209,682
PERA rate reimbursement	19,906
Police aid	66,150
SCORE	68,710
	<b>4,648,477</b>

**Total appropriations and shared revenue** **\$ 4,648,477**

**Reimbursement for Services**

**State**

Minnesota Department of Human Services	\$ 387,040
	<b>387,040</b>

**Payments**

**Local**

Local contributions	\$ 18,348
	<b>18,348</b>

**Grants**

**State**

Minnesota Department/Board of	
Corrections	\$ 43,327
Education	6,855
Health	77,990
Human Services	792,427
Natural Resources	48,975
Transportation	814,500
Veterans Affairs	7,500
Water and Soil Resources	67,087
	<b>1,858,661</b>

**Total state** **\$ 1,858,661**

**Federal**

Department/Institute of	
Agriculture	\$ 200,206
Health and Human Services	1,064,858
Homeland Security	17,432
Transportation	1,232,704
	<b>2,515,200</b>

**Total federal** **\$ 2,515,200**

**Total state and federal grants** **\$ 4,373,861**

**Total Intergovernmental Revenue** **\$ 9,427,726**

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**EXHIBIT E-2**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Numbers</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>			
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	16162MN004W1003	\$ 100,475
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	16162MN101S2514	95,932
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	16162MN127Q7503	3,696
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (Total State Administrative Matching Grants for the Supplemental Nutrition Assistance Program 10.561 - \$99,731)	10.561	16162MN101S2520	103
<b>Total U.S. Department of Agriculture</b>			<b>\$ 200,206</b>
<b>U.S. Department of Transportation</b>			
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	00083	\$ 1,404,971
Formula Grants for Rural Areas	20.509	AGR#07208	27,256
Formula Grants for Rural Areas (Total Formula Grants for Rural Areas 20.509 - \$81,129)	20.509	AGR#1003395	53,873
<b>Total U.S. Department of Transportation</b>			<b>\$ 1,486,100</b>
<b>U.S. Department of Health and Human Services</b>			
Passed Through Minnesota Department of Health Public Health Emergency Preparedness	93.069	6NU90TP000529-05-03	\$ 16,235
Temporary Assistance for Needy Families (TANF) (Total TANF 93.558 - \$96,552)	93.558	2015G996115	10,096
Maternal and Child Health Services Block Grant to the States	93.994	6B04MC29349	19,917
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	G1601MNFPS	1,141
Temporary Assistance for Needy Families (TANF) (Total TANF 93.558 - \$96,552)	93.558	1601MNTANF	86,456
Child Support Enforcement	93.563	1604MNCSES	12,240
Child Support Enforcement (Total Child Support Enforcement 93.563 - \$210,960)	93.563	1604MNCES	198,720
Refugee and Entrant Assistance - State-Administered Programs	93.566	1601MNRMA	91
Child Care and Development Block Grant	93.575	G1601MNCDF	2,928
Community-Based Child Abuse Prevention Grants	93.590	G1502MNFPG	1,677
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G1601MNCWSS	306
Foster Care - Title IV-E	93.658	1601MNFOST	142,922

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**EXHIBIT E-2  
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Numbers</b>	<b>Expenditures</b>
<b>U.S. Department of Health and Human Services</b>			
Passed Through Minnesota Department of Human Services (Continued)			
Social Services Block Grant	93.667	1601MNSOSR	74,737
Chafee Foster Care Independence Program	93.674	G1601MNCILP	14,129
Medical Assistance Program	93.778	05-1605MN5ADM	565,951
Medical Assistance Program	93.778	05-1605MN5MAP	6,393
(Total Medical Assistance Program 93.778 - \$572,344)			<hr/>
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ 1,153,939</b>
<b>U.S. Department of Homeland Security</b>			
Passed Through Minnesota Department of Public Safety			
Emergency Management Performance Grants	97.042	P072015EMPG	<b>\$ 17,432</b>
<b>Total Federal Awards</b>			<b>\$ 2,857,677</b>

The County did not pass any federal awards through to subrecipients during the year ended December 31, 2016.

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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

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1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Watonwan County under programs of the federal government for the year ended December 31, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 or changes in net position 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 Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Watonwan County has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 2,515,200
Grants received more than 60 days after year-end, unavailable in 2016	
Highway Planning and Construction (CFDA #20.205)	253,396
Collaborative Grants (receipted into an agency fund)	
Foster Care - Title IV-E (CFDA #93.658)	23,268
Medical Assistance (CFDA #93.778)	65,813
	<hr/>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 2,857,677</u>

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

### Independent Auditor's Report

Board of County Commissioners  
Watonwan County  
St. James, Minnesota

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, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 5, 2017.

### **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.

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. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001 to be a material weakness.

### **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 Counties*, 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 Counties*, except as described in the Schedule of Findings and Questioned Costs as items 2016-001 and 2016-002. 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.

## **Other Matters**

Included in the Schedule of Findings and Questioned Costs is a management practices comment. We believe this recommendation to be of benefit to the County, and it is reported for that purpose.

## **Watonwan County's Response to Findings**

Watonwan County's responses to the internal control, legal compliance, and management practices findings identified in our audit are described in the Corrective Action Plan. 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 Counties* 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

June 5, 2017

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REBECCA OTTO  
STATE AUDITOR

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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  
St. James, Minnesota

### **Report on Compliance for the 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) *Compliance Supplement* that could have a direct and material effect on the County's major federal program for the year ended December 31, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

**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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

June 5, 2017

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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

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

**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **None reported**

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

**Federal Awards**

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **None reported**

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **No**

The major federal program is:

Highway Planning and Construction

CFDA No. 20.205

The threshold for distinguishing between Types A and B programs was \$750,000.

Watonwan County qualified as a low-risk auditee? **No**

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

### INTERNAL CONTROL

#### PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2014-001

#### Audit Adjustments

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

**Condition:** During our audit, we proposed audit adjustments that resulted in changes to Watonwan County's financial statements. The adjustments were reviewed and approved by the appropriate staff and are reflected in the financial statements.

**Context:** The non-detection of misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented. These adjustments were found in the audit; however, independent external auditors cannot be considered part of the County's internal control.

**Effect:** The following audit adjustments were necessary to be recorded for December 31, 2016:

- State grant revenue of \$520,466 in the Road and Bridge Special Revenue Fund was reclassified as a reduction of expenditures for the reimbursement from the state for their portion of project 083-090-004.
- Cash in the Taxes and Penalties Agency Fund was reduced by \$113,491 for the net effect of reversing 2015 and recording 2016 unapportioned taxes.

**Cause:** The County informed us that the activity in the Road and Bridge Special Revenue Fund was misclassified due to the uniqueness of the project. The unapportioned tax adjustment was overlooked in the Agency Fund.

**Recommendation:** We recommend that the County review internal controls currently in place and design and implement procedures to improve internal controls over financial reporting to ensure the County's annual financial statements are reported in accordance with generally accepted accounting principles.

**View of Responsible Official:** Acknowledged

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

None.

### IV. OTHER FINDINGS AND RECOMMENDATIONS

#### A. MINNESOTA LEGAL COMPLIANCE

##### ITEMS ARISING THIS YEAR

Finding Number 2016-001

##### Individual Ditch System Cash Deficits

**Criteria:** Minn. Stat. §103E.655 requires that drainage system costs 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.

**Condition:** The County had ditch systems with individual deficit cash balances at December 31, 2016.

**Context:** As of December 31, 2016, six County ditches had deficit cash balances totaling \$29,704.

**Effect:** The County is not in compliance with Minnesota statutes by having ditch systems with negative cash balances at year-end.

**Cause:** The County indicated ditch expenditures were made for systems with insufficient cash to cover the expenditures. 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 then charge interest from the General Fund to compensate for the implied loan.

**Recommendation:** We recommend the County eliminate the cash deficits by borrowing from eligible funds with surplus cash balances under Minn. Stat. § 103E.655.

**View of Responsible Official:** Acknowledged

Finding Number 2016-002

Forfeited Property Net Proceeds to Taxing Districts

**Criteria:** Net proceeds from the sale of forfeited land must be apportioned by the County Auditor/Treasurer to the taxing districts interested in the land in accordance with Minn. Stat. § 282.08.

**Condition:** Watonwan County has not apportioned the net proceeds from prior year sales of forfeited land.

**Context:** While the Watonwan County Auditor/Treasurer does discharge any special assessments on the forfeited land, any remaining net proceeds are not apportioned to interested taxing districts.

**Effect:** The County has not complied with Minn. Stat. § 282.08. Other taxing districts that may be entitled to a portion of the proceeds from the sale of forfeited land have not received a proportion of the proceeds in accordance with statute.

**Cause:** The County believes the proceeds should be used for future forfeited land expenditures.

**Recommendation:** We recommend Watonwan County comply with provisions of Minn. Stat. § 282.08 on all future forfeited land sales.

**View of Responsible Official:** Acknowledged

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2015-001

County Ditch Deficit Fund Balances

**Criteria:** Each individual ditch system should be maintained with a positive balance to meet its financial obligations.

**Condition:** As of December 31, 2016, the County had individual ditch systems where liabilities exceeded assets, resulting in individual deficit fund balance amounts.

**Context:** Ten of the 39 individual ditch systems had deficit fund balances as of December 31, 2016, totaling \$1,974,209, which was an increase in the deficit from the \$1,958,817 reported in the prior year.

**Effect:** Ditch systems with deficit fund balances indicate that measures have not been taken to ensure that the ditch can meet financial obligations.

**Cause:** The County indicated that construction costs and repairs on the ditch systems are made during the year, and assessments to cover the costs were not approved before year-end. These expenditures have resulted in deficit balances because the construction costs are associated with open petition improvement projects. Depending on whether the petitions are granted or rejected, related costs will be recovered either from the petitioners or through bonding and subsequent special assessment collections. Deficits will be addressed after projects are completed or petition and repair costs are collected through special assessments.

**Recommendation:** We recommend that the County continue to monitor the balances of the ditch systems and eliminate the fund deficit balances by approving the necessary special assessments whenever practical.

**View of Responsible Official:** Acknowledged

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

**CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**Finding Number: 2014-001**

**Finding Title: Audit Adjustments**

Name of Contact Person Responsible for Corrective Action:

Donald Kuhlman, County Auditor/Treasurer

Corrective Action Planned:

Watonwan County will implement more extensive review of transactions and adjusting entries, particularly reversals of year-end adjusting entries, to insure the financial statements are accurate, complete, and fairly presented in accordance with generally accepted accounting principles.

Anticipated Completion Date:

Ongoing

**Finding Number: 2015-001**

**Finding Title: County Ditch Deficit Fund Balances**

Name of Contact Person Responsible for Corrective Action:

Donald Kuhlman, County Auditor/Treasurer

Corrective Action Planned:

Watonwan County assesses projects upon completion. Unfortunately, modified accrual accounting does not recognize assessments until collected and offsets the receivable amount with deferred revenue, guaranteeing a deficit fund balance. The special assessments are more than adequate to offset the advances and the interest charged on those advances. Deficit fund balances created by annual expense are addressed through annual assessments.

Anticipated Completion Date:

Continuous

**Finding Number: 2016-001**

**Finding Title: Individual Ditch System Cash Deficits**

Name of Contact Person Responsible for Corrective Action:

Donald Kuhlman, County Auditor/Treasurer

Corrective Action Planned:

Watowan County maintains cash balances in individual ditch systems with ongoing improvement projects by transferring funds from the General Fund. The six systems that currently have deficit balances at year-end occurred from current year repair expenditures and will be replenished through assessments of beneficiaries and, in the case of joint ditch systems, from beneficiaries and billings to counties with joint systems.

Anticipated Completion Date:

Continuous

**Finding Number: 2016-002**

**Finding Title: Forfeited Property Net Proceeds to Taxing Districts**

Name of Contact Person Responsible for Corrective Action:

Donald Kuhlman, County Auditor/Treasurer

Corrective Action Planned:

Watowan County views tax forfeiture property as an ongoing process. While the statute requires annual distribution, it does not provide for funding of demolition of forfeited buildings. We do not have productive timber land that produces a profit annually. Fortunately, we have had sales that have offset expenses related to forfeited property. Our cash balance is at approximately \$14,000 at this time. There is a commercial building in downtown St. James that will need to be demolished. This demolition, along with three homes currently being forfeited, will more than likely deplete the forfeited funds.



This issue is just the beginning. Our communities all have homes that are in disrepair. Unless the cities condemn the properties, they end up being the responsibility of Watonwan County. The new forfeiture timelines speed up the process. Homes that used to forfeit in six years, now forfeit in four. While the statute provides guidance for any excess funds, it fails to mention shortfalls. Making cleanup in municipalities the responsibility of the County taxpayers (78% is farmland) is unfair.

Anticipated Completion Date:

Continuous

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**Finding Number: 2014-001**

**Finding Title: Audit Adjustments**

**Summary of Condition:** During the 2015 audit, we proposed audit adjustments that resulted in changes to Watonwan County's financial statements.

**Summary of Corrective Action Previously Reported:** The County will cross review its work on the financial statements for adjusting entries impact. The Road and Bridge accounts will be renamed to ensure that receipts are properly posted.

**Status:** Not Corrected. Please see Corrective Action Plan for explanation.

Was corrective action taken significantly different than the action previously reported?

Yes \_\_\_\_\_ No   X  

**Finding Number: 2015-001**

**Finding Title: County Ditch Fund Deficit Balances**

**Summary of Condition:** The County had ditch systems with individual fund deficit balances at December 31, 2015.

**Summary of Corrective Action Previously Reported:** Assessments will be collected which will eliminate the deficits.

**Status:** Not Corrected. Please see Corrective Action Plan for explanation.

Was corrective action taken significantly different than the action previously reported?

Yes \_\_\_\_\_ No   X