

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

WATONWAN COUNTY
ST. JAMES, MINNESOTA

YEAR ENDED DECEMBER 31, 2007

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

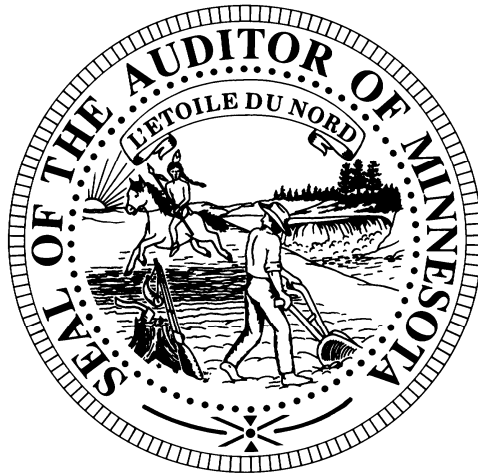
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

Year Ended December 31, 2007



**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
2007

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

*2007 Chair

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Watonwan County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Watonwan County, Minnesota, as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information for Watonwan County as of December 31, 2007, and the respective changes in financial position thereof and the respective budgetary comparisons for the General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, and County Ditch Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Watonwan County's basic financial statements. The combining and individual fund financial statements and schedule listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of Watonwan County. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2008, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

November 26, 2008

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007
(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, 2007. We encourage readers to consider the information presented here in conjunction with the County's basic financial statements following this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

- The assets of Watonwan County exceeded its liabilities at the close of 2007 by \$44,117,392. Of this amount, \$6,588,343 (unrestricted net assets) may be used to meet Watonwan County's ongoing obligations to citizens and creditors.
- Watonwan County's total net assets increased by \$1,458,076 in 2007.
- At the close of 2007, Watonwan County's governmental funds reported combined ending fund balances of \$7,925,233, \$6,783,345 unreserved, of which approximately \$2,572,239 is available for spending at the County's discretion and is noted as unreserved, undesignated fund balance.
- At the close of 2007, unreserved fund balance for the General Fund was \$3,730,772, or 69.9 percent, of total General Fund expenditures.
- Watonwan County's total bonds and capital notes payable decreased by \$2,195,000. The key factor to this decrease was due to the payoff of the 2000 bond issue.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

County-Wide Financial Statements

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

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

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

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

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

Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Watonwan County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Watonwan County can be divided into two categories: governmental funds and fiduciary funds.

Because the focus of governmental funds is narrower than that of the county-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the county-wide financial statements. By doing so, readers may better understand the long-term impact of the County's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the county-wide financial statements. However, unlike the county-wide financial statements, county fund level financial statements focus on short-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the County's short-term financing requirements.

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

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

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

Notes to the Financial Statements

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

Other Information

In addition to the basic financial statements and notes, Watowan County also provides supplementary information on intergovernmental revenues (Schedule 1).

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

County-Wide Financial Analysis

Over time, net assets serve as a useful indicator of the County's financial position. Watonwan County's assets exceeded liabilities by \$44,117,392 at the close of 2007. The largest portion of Watonwan County's net assets (81.3 percent) reflects its investment in capital assets (for example, land, buildings, and equipment), less any related debt used to acquire those assets that is still outstanding. However, it should be noted that these assets are not available for future spending.

Governmental Net Assets

	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 10,774,963	\$ 11,532,823
Capital assets	<u>38,764,520</u>	<u>38,764,259</u>
Total Assets	<u>\$ 49,539,483</u>	<u>\$ 50,297,082</u>
Long-term liabilities outstanding	\$ 4,747,653	\$ 6,788,488
Other liabilities	<u>674,438</u>	<u>849,278</u>
Total Liabilities	<u>\$ 5,422,091</u>	<u>\$ 7,637,766</u>
Net Assets		
Invested in capital assets - net of related debt	\$ 35,873,342	\$ 35,715,239
Restricted	1,655,707	3,264,240
Unrestricted	<u>6,588,343</u>	<u>3,679,837</u>
Total Net Assets	<u>\$ 44,117,392</u>	<u>\$ 42,659,316</u>

The unrestricted net asset amount of \$6,588,343 as of December 31, 2007, may be used to meet the County's ongoing obligations to citizens and creditors.

Governmental Activities

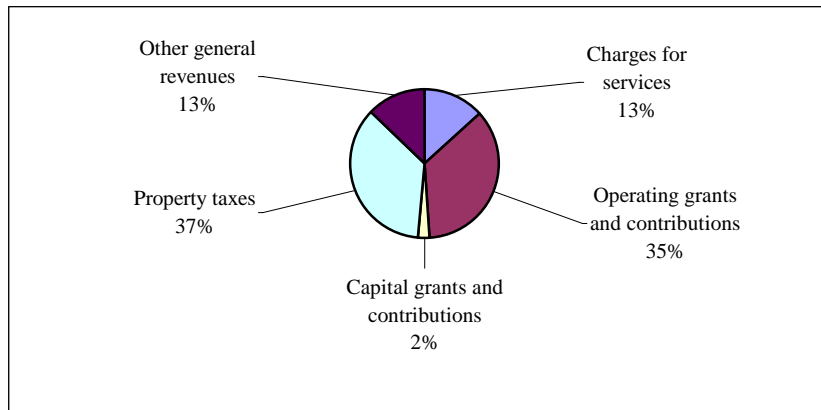
The following table summarizes the changes in net assets for 2007.

Changes in Governmental Net Assets

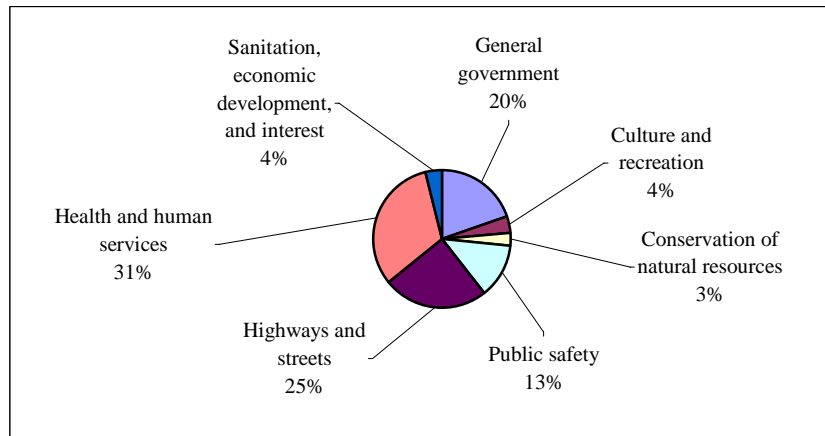
	<u>2007</u>	<u>2006</u>
Revenues		
Program revenues		
Charges for services	\$ 2,104,851	\$ 1,700,038
Operating grants and contributions	5,620,210	5,088,557
Capital grants and contributions	392,945	797,995
General revenues		
Property taxes	5,675,037	5,221,875
Other	<u>2,043,402</u>	<u>2,099,545</u>
Total Revenues	<u>\$ 15,836,445</u>	<u>\$ 14,908,010</u>

	2007	2006
Expenses		
General government	\$ 2,822,941	\$ 2,676,460
Public safety	1,837,481	2,600,526
Highways and streets	3,568,260	3,086,433
Sanitation	241,552	132,179
Human services	4,145,986	3,741,877
Health	458,293	428,952
Culture and recreation	579,147	531,002
Conservation of natural resources	419,358	502,677
Economic development	142,098	146,200
Interest	163,253	260,169
Total Expenses	\$ 14,378,369	\$ 14,106,475
Increase in Net Assets	\$ 1,458,076	\$ 801,535
Net Assets - January 1	42,659,316	41,857,781
Net Assets - December 31	<u>\$ 44,117,392</u>	<u>\$ 42,659,316</u>

Sources of County Revenues



Where County Funds Are Spent



(Unaudited)

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the County's governmental funds is to provide information on short-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$7,925,233. The majority of this amount (\$6,783,345) constitutes unreserved fund balance. The remainder of fund balance is reserved to indicate this it is not available for new spending because it has already been committed for various reasons.

The General Fund is the chief operating fund of Watonwan County. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$3,730,772, while the total fund balance was \$4,272,481. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance and total fund balance to annual expenditures. Unreserved fund balance represents 69.9 percent of total General Fund expenditures for 2007, while total fund balance represents 80.1 percent of total General Fund expenditures. In 2007, the total fund balance in the General Fund increased by \$509,658, with unreserved fund balances increasing by \$342,019 and reserved fund balances increasing by \$167,639. The primary reasons for the increase in unreserved fund balance were increased interest earnings, dividends from the Minnesota Counties Insurance Trust, and loans from the Minnesota Department of Agriculture and the Minnesota Pollution Control Agency. The primary reasons for the increase in reserved fund balance were E911 grant monies held over and collections of the ISTS loans.

The Road and Bridge Special Revenue Fund's fund balance increased by \$572,621 in 2007. The main reasons for the increase were construction costs being under budget and an additional tax levy.

In 2007, the Human Services Special Revenue Fund's fund balance increased by \$51,240.

General Fund Budgetary Highlights

The largest variances were in miscellaneous revenue which was due to a dividend from workers' compensation and property/casualty insurance and an increase in interest earnings. On the expenditure side, actual expenditures were \$263,178 more than budgeted. This is a result of additional costs in the Sheriff's Department, septic loan payments, and other smaller variances.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2007, amounts to \$38,764,520 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The total increase in the County's investment in capital assets for the current fiscal year was virtually unchanged.

	Governmental Capital Assets (Net of Depreciation)	
	2007	2006
Land	\$ 695,771	\$ 695,771
Construction in progress	334,240	833,903
Land improvements	34,408	36,865
Buildings and improvements	5,781,687	5,106,320
Machinery, furniture, and equipment	1,820,515	1,942,591
Infrastructure	30,097,899	30,148,809
Total	<u>\$ 38,764,520</u>	<u>\$ 38,764,259</u>

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

Long-Term Debt

At the end of the current fiscal year, the County had total bonded debt and capital notes outstanding of \$2,891,178, which is backed by the full faith and credit of the government. Watonwan County's bonds are not rated.

	Governmental Outstanding Debt	
	2007	2006
General obligation bonds and capital notes	<u>\$ 2,891,178</u>	<u>\$ 5,083,392</u>

The County's debt decreased by \$2,192,214 during the fiscal year, which was due to payments made for bonds and capital notes during the year. Additional information on the County's debt can be found in the notes to the financial statements.

Minnesota statutes limit the amount of debt that a county may levy to two percent of its total market value. As of the end of 2007, Watonwan County is well below the two percent debt limit imposed by state statutes.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

- Watonwan County's unemployment rate was 5.5 percent as of the end of 2007. This is slightly higher than the state-wide rate of 4.9 percent.
- Both housing and farm land values have continued to increase in 2007.

At the end of 2007, Watonwan County set its 2008 revenue and expenditure budgets. In doing so, it has appropriated \$117,419 from available fund balance to offset the difference between 2008 budgeted revenues and expenditures of \$15,251,902 and \$15,369,321, respectively.

REQUESTS FOR INFORMATION

This annual financial report is designed to provide a general overview of the County's finances for all those with an interest in the County's finances. Questions concerning any information provided in this report, or requests for additional financial information, should be addressed to the Watonwan County Auditor, Watonwan County Courthouse, 710 Second Avenue South, P. O. Box 518, St. James, Minnesota 56081.

BASIC FINANCIAL STATEMENTS

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COUNTY-WIDE FINANCIAL STATEMENTS

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 1

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

Assets

Cash and pooled investments	\$	7,849,365
Taxes receivable		
Prior - net		138,881
Special assessments receivable		
Prior - net		22,413
Noncurrent		683,762
Accounts receivable		249,434
Accrued interest receivable		60,821
Due from other governments		1,522,241
Inventories		215,666
Deferred debt issuance costs		32,380
Capital assets		
Non-depreciable		1,030,011
Depreciable - net of accumulated depreciation		37,734,509
		37,734,509
Total Assets	\$	49,539,483

Liabilities

Accounts payable	\$	260,122
Salaries payable		196,233
Contracts payable		79,097
Due to other governments		61,316
Accrued interest payable		48,798
Unearned revenue		28,872
Long-term liabilities		
Due within one year		756,314
Due in more than one year		3,991,339
		3,991,339
Total Liabilities	\$	5,422,091

Net Assets

Invested in capital assets - net of related debt	\$	35,873,342
Restricted for		
General government		65,195
Public safety		140,801
Highways and streets		1,024,000
Culture and recreation		155,137
Economic development		12,352
Debt service		258,222
Unrestricted		6,588,343
		6,588,343
Total Net Assets	\$	44,117,392

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 2

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

	Program Revenues			Capital	Net (Expense)
Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Grants and Contributions	Grants and Contributions	Revenue and Change in Net Assets
<u>Functions/Programs</u>					
Primary government					
Governmental activities					
General government	\$ 2,822,941	\$ 574,933	\$ 236,443	\$ -	\$ (2,011,565)
Public safety	1,837,481	183,535	255,046	-	(1,398,900)
Highways and streets	3,568,260	316,388	2,753,951	389,924	(107,997)
Sanitation	241,552	180,838	-	-	(60,714)
Human services	4,145,986	565,070	1,966,379	-	(1,614,537)
Health	458,293	38,640	198,230	-	(221,423)
Culture and recreation	579,147	28,108	-	3,021	(548,018)
Conservation of natural resources	419,358	127,155	210,161	-	(82,042)
Economic development	142,098	90,184	-	-	(51,914)
Interest	163,253	-	-	-	(163,253)
Total Governmental Activities	\$ 14,378,369	\$ 2,104,851	\$ 5,620,210	\$ 392,945	\$ (6,260,363)
 General Revenues					
Property taxes					\$ 5,675,037
Mortgage registry and deed tax					6,231
Payments in lieu of tax					16,998
Grants and contributions not restricted to specific programs					1,593,280
Unrestricted investment earnings					319,114
Miscellaneous					107,779
Total general revenues					\$ 7,718,439
Change in net assets					\$ 1,458,076
Net Assets - January 1					\$ 42,659,316
Net Assets - December 31					\$ 44,117,392

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

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

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 4,394,617	\$ 754,159
Taxes receivable		
Prior	72,114	17,107
Special assessments		
Prior	600,904	10,407
Noncurrent	7,987	-
Accounts receivable	16,217	6,059
Accrued interest receivable	58,665	-
Due from other funds	23,625	39,741
Due from other governments	26,297	907,123
Inventories	-	215,666
Advances to other funds	9,440	-
	\$ 5,209,866	\$ 1,950,262
Total Assets	\$ 5,209,866	\$ 1,950,262

EXHIBIT 3

<u>Human Services</u>	<u>County Ditch</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 1,299,149	\$ 227,815	\$ 256,246	\$ 917,379	\$ 7,849,365
34,079	-	5,500	10,081	138,881
-	72,451	-	-	683,762
-	522	-	13,904	22,413
227,158	-	-	-	249,434
-	-	-	2,156	60,821
-	-	-	-	63,366
371,338	5,983	211,500	-	1,522,241
-	-	-	-	215,666
-	-	-	-	9,440
<u>\$ 1,931,724</u>	<u>\$ 306,771</u>	<u>\$ 473,246</u>	<u>\$ 943,520</u>	<u>\$ 10,815,389</u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

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

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 71,469	\$ 29,815
Salaries payable	91,586	27,989
Contracts payable	-	79,097
Due to other funds	34,589	-
Due to other governments	49,544	-
Deferred revenue - unavailable	661,325	919,376
Deferred revenue - unearned	28,872	-
Advances from other funds	-	-
	\$ 937,385	\$ 1,056,277
Fund Balances		
Reserved for		
Inventories	\$ -	\$ 215,666
Law library	45,515	-
Recorder's equipment	16,080	-
HAVA	3,600	-
E-911	131,333	-
Sheriff's contingency	9,468	-
Highway projects	-	229,376
Donations	-	-
ISTS loans	296,064	-
Water plan	27,297	-
HRA special benefits levy	12,352	-
Unreserved		
Designated for cash flows	1,832,012	448,943
Designated for compensated absences	385,510	-
Designated for debt service	-	-
Undesignated	1,513,250	-
Unreserved, reported in nonmajor		
Special revenue funds	-	-
	\$ 4,272,481	\$ 893,985
Total Fund Balances	\$ 4,272,481	\$ 893,985
Total Liabilities and Fund Balances	\$ 5,209,866	\$ 1,950,262

EXHIBIT 3
(Continued)

<u>Human Services</u>	<u>County Ditch</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 136,084	\$ 1,463	\$ -	\$ 21,291	\$ 260,122
66,778	-	-	9,880	196,233
-	-	-	-	79,097
23,625	3,018	-	2,134	63,366
9,482	2,290	-	-	61,316
306,991	72,973	215,024	16,021	2,191,710
-	-	-	-	28,872
-	9,440	-	-	9,440
\$ 542,960	\$ 89,184	\$ 215,024	\$ 49,326	\$ 2,890,156
\$ -	\$ -	\$ -	\$ -	\$ 215,666
-	-	-	-	45,515
-	-	-	-	16,080
-	-	-	-	3,600
-	-	-	-	131,333
-	-	-	-	9,468
-	-	-	-	229,376
-	-	-	155,137	155,137
-	-	-	-	296,064
-	-	-	-	27,297
-	-	-	-	12,352
1,010,120	-	-	-	3,291,075
276,299	-	-	-	661,809
-	-	258,222	-	258,222
102,345	217,587	-	-	1,833,182
-	-	-	739,057	739,057
\$ 1,388,764	\$ 217,587	\$ 258,222	\$ 894,194	\$ 7,925,233
\$ 1,931,724	\$ 306,771	\$ 473,246	\$ 943,520	\$ 10,815,389

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 3A

**RECONCILIATION OF THE FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2007**

Fund balances - total governmental funds (Exhibit 3)	\$ 7,925,233
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	38,764,520
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	2,191,710
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	\$ (2,930,000)
Accrued interest payable	(48,798)
Deferred debt issuance charges	32,380
Discount on bonds	38,822
Loans payable	(931,426)
Compensated absences	(925,049)
	<u>(4,764,071)</u>
Net Assets of Governmental Activities (Exhibit 1)	<u>\$ 44,117,392</u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

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

	General	Road and Bridge
Revenues		
Taxes	\$ 2,743,976	\$ 777,708
Special assessments	136,000	7,460
Licenses and permits	23,133	-
Intergovernmental	1,450,085	2,989,866
Charges for services	730,008	267,563
Fines and forfeits	1,469	-
Gifts and contributions	-	-
Investment earnings	290,041	-
Miscellaneous	311,854	278,107
	\$ 5,686,566	\$ 4,320,704
Expenditures		
Current		
General government	\$ 2,690,834	\$ -
Public safety	1,818,147	-
Highways and streets	-	3,816,806
Sanitation	-	-
Human services	-	-
Health	-	-
Culture and recreation	58,002	-
Conservation of natural resources	455,218	-
Economic development	141,407	-
Capital outlay	94,436	-
Debt service		
Principal	46,620	-
Interest	29,011	-
	\$ 5,333,675	\$ 3,816,806
Excess of Revenues Over (Under)		
Expenditures	\$ 352,891	\$ 503,898

EXHIBIT 4

<u>Human Services</u>	<u>County Ditch</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 1,479,509	\$ -	\$ 220,767	\$ 436,452	\$ 5,658,412
-	131,687	-	170,787	445,934
-	-	-	-	23,133
2,684,368	-	34,561	177,572	7,336,452
262,991	-	-	4,576	1,265,138
-	-	-	9,569	11,038
-	-	-	3,021	3,021
-	-	29,073	7,985	327,099
321,093	300	-	13,358	924,712
<u>\$ 4,747,961</u>	<u>\$ 131,987</u>	<u>\$ 284,401</u>	<u>\$ 823,320</u>	<u>\$ 15,994,939</u>
\$ -	\$ -	\$ -	\$ -	\$ 2,690,834
-	-	-	-	1,818,147
-	-	-	-	3,816,806
-	-	-	245,961	245,961
4,160,405	-	-	-	4,160,405
455,414	-	-	-	455,414
-	-	-	532,919	590,921
-	27,387	-	-	482,605
-	-	-	-	141,407
-	-	-	-	94,436
-	-	2,195,000	-	2,241,620
-	1,052	180,313	-	210,376
<u>\$ 4,615,819</u>	<u>\$ 28,439</u>	<u>\$ 2,375,313</u>	<u>\$ 778,880</u>	<u>\$ 16,948,932</u>
<u>\$ 132,142</u>	<u>\$ 103,548</u>	<u>\$ (2,090,912)</u>	<u>\$ 44,440</u>	<u>\$ (953,993)</u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

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

	<u>General</u>	<u>Road and Bridge</u>
Other Financing Sources (Uses)		
Transfers in	\$ 80,902	\$ 11,279
Transfers out	(27,486)	-
Proceeds from sale of capital assets	103,351	-
	<u>156,767</u>	<u>11,279</u>
Total Other Financing Sources (Uses)	\$ 156,767	\$ 11,279
Net Change in Fund Balances	\$ 509,658	\$ 515,177
Fund Balances - January 1	3,762,823	321,364
Increase (decrease) in reserved for inventories	<u>-</u>	<u>57,444</u>
Fund Balances - December 31	\$ <u>4,272,481</u>	\$ <u>893,985</u>

EXHIBIT 4
(Continued)

<u>Human Services</u>	<u>County Ditch</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ 11,429	\$ -	\$ 4,778	\$ 108,388
(80,902)	-	-	-	(108,388)
-	-	-	-	103,351
<u>\$ (80,902)</u>	<u>\$ 11,429</u>	<u>\$ -</u>	<u>\$ 4,778</u>	<u>\$ 103,351</u>
\$ 51,240	\$ 114,977	\$ (2,090,912)	\$ 49,218	\$ (850,642)
1,337,524	102,610	2,349,134	844,976	8,718,431
-	-	-	-	57,444
<u>\$ 1,388,764</u>	<u>\$ 217,587</u>	<u>\$ 258,222</u>	<u>\$ 894,194</u>	<u>\$ 7,925,233</u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 4A

**RECONCILIATION OF THE CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

Net change in fund balances - total governmental funds (Exhibit 4) **\$ (850,642)**

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. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay expenditures	\$ 1,439,931	
Depreciation expense	<u>(1,439,670)</u>	261

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

Decrease in deferred revenue for taxes and special assessments	\$ (143,151)	
Increase in deferred revenue for grants and allotments	<u>303,420</u>	160,269

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

Proceeds of loans issued	\$ (103,351)	
Repayment of debt principal	2,241,620	
Amortization of discount on debt and issuance costs	<u>(4,929)</u>	2,133,340

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	\$ 57,444	
Change in accrued interest payable	52,052	
Change in compensated absences	<u>(94,648)</u>	<u>14,848</u>

Change in Net Assets of Governmental Activities (Exhibit 2) **\$ 1,458,076**

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 5

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,999,223	\$ 2,710,690	\$ 2,743,976	\$ 33,286
Special assessments	-	-	136,000	136,000
Licenses and permits	10,710	10,710	23,133	12,423
Intergovernmental	1,090,128	1,378,661	1,450,085	71,424
Charges for services	671,249	671,249	730,008	58,759
Fines and forfeits	-	-	1,469	1,469
Investment earnings	110,000	110,000	290,041	180,041
Miscellaneous	148,505	148,505	311,854	163,349
Total Revenues	\$ 5,029,815	\$ 5,029,815	\$ 5,686,566	\$ 656,751
Expenditures				
Current				
General government				
County commissioners	\$ 191,583	\$ 191,583	\$ 185,673	\$ 5,910
Court administrator	20,000	20,000	14,823	5,177
Law library	12,000	12,000	13,090	(1,090)
County auditor	215,555	215,555	213,350	2,205
License center	88,257	88,257	72,441	15,816
County treasurer	128,588	128,588	122,444	6,144
Personnel	71,199	71,199	89,613	(18,414)
Central services	170,149	170,149	145,387	24,762
Elections	1,000	1,000	3,169	(2,169)
Information services	99,616	99,616	82,749	16,867
County attorney	224,810	224,810	228,678	(3,868)
Attorney's contingent	7,500	20,000	20,000	-
Victim witness	42,182	42,182	49,283	(7,101)
Drug court	42,317	9,744	9,744	-
County recorder	144,095	144,095	159,096	(15,001)
County assessor	234,624	234,624	242,214	(7,590)
Building maintenance	251,243	251,243	256,632	(5,389)
Veterans service	87,263	87,263	117,654	(30,391)
Motor pool	-	-	34,503	(34,503)
Public transit	224,520	224,520	248,376	(23,856)
Other general government	378,425	378,425	381,915	(3,490)
Total general government	\$ 2,634,926	\$ 2,614,853	\$ 2,690,834	\$ (75,981)

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**EXHIBIT 5
(Continued)**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
County sheriff	\$ 1,019,778	\$ 1,019,778	\$ 1,103,499	\$ (83,721)
Sheriff's contingent	5,000	5,000	418	4,582
Jail	424,688	424,688	421,980	2,708
E-911 and radio maintenance	49,000	49,000	5,093	43,907
County coroner	7,800	7,800	7,042	758
Court services	227,526	227,526	243,169	(15,643)
Emergency management	35,922	35,922	36,946	(1,024)
Total public safety	\$ 1,769,714	\$ 1,769,714	\$ 1,818,147	\$ (48,433)
Culture and recreation				
County parks	\$ 20,500	\$ 20,500	\$ 24,787	\$ (4,287)
Historical society	32,000	32,000	32,000	-
Cemetery culture and recreation	-	-	1,215	(1,215)
Total culture and recreation	\$ 52,500	\$ 52,500	\$ 58,002	\$ (5,502)
Conservation of natural resources				
Environmental services	\$ 93,236	\$ 93,236	\$ 92,947	\$ 289
County extension	82,095	82,095	83,405	(1,310)
Agricultural society/fair grounds	41,700	41,700	50,489	(8,789)
Soil and water conservation	51,000	51,000	51,000	-
CWP project	103,000	103,000	23,277	79,723
Local water plan block grant	70,000	70,000	72,495	(2,495)
Septic loan program	-	-	81,605	(81,605)
Total conservation of natural resources	\$ 441,031	\$ 441,031	\$ 455,218	\$ (14,187)
Economic development				
Employment and training	\$ 89,399	\$ 89,399	\$ 91,907	\$ (2,508)
Economic development	50,500	50,500	49,500	1,000
Total economic development	\$ 139,899	\$ 139,899	\$ 141,407	\$ (1,508)

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

*EXHIBIT 5
(Continued)*

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Capital outlay				
General government	\$ 52,500	\$ 52,500	\$ 45,572	\$ 6,928
Public safety	\$ -	\$ -	\$ 48,864	\$ (48,864)
Debt service				
Principal	\$ -	\$ -	\$ 46,620	\$ (46,620)
Interest	\$ -	\$ -	\$ 29,011	\$ (29,011)
Total Expenditures	<u>\$ 5,090,570</u>	<u>\$ 5,070,497</u>	<u>\$ 5,333,675</u>	<u>\$ (263,178)</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (60,755)</u>	<u>\$ (40,682)</u>	<u>\$ 352,891</u>	<u>\$ 393,573</u>
Other Financing Sources (Uses)				
Transfers in	\$ 80,900	\$ 80,900	\$ 80,902	\$ 2
Transfers out	-	-	(27,486)	(27,486)
Proceeds from loans	-	-	103,351	103,351
Total Other Financing Sources (Uses)	<u>\$ 80,900</u>	<u>\$ 80,900</u>	<u>\$ 156,767</u>	<u>\$ 75,867</u>
Net Change in Fund Balance	\$ 20,145	\$ 40,218	\$ 509,658	\$ 469,440
Fund Balance - January 1	<u>3,762,823</u>	<u>3,762,823</u>	<u>3,762,823</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 3,782,968</u>	<u>\$ 3,803,041</u>	<u>\$ 4,272,481</u>	<u>\$ 469,440</u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 6

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 867,843	\$ 781,828	\$ 777,708	\$ (4,120)
Special assessments	-	-	7,460	7,460
Intergovernmental	2,777,045	2,863,060	2,989,866	126,806
Charges for services	230,000	230,000	267,563	37,563
Miscellaneous	155,700	155,700	278,107	122,407
Total Revenues	\$ 4,030,588	\$ 4,030,588	\$ 4,320,704	\$ 290,116
Expenditures				
Current				
Highways and streets				
Administration	\$ 393,968	\$ 393,968	\$ 396,986	\$ (3,018)
Maintenance	957,881	957,881	768,029	189,852
Construction	1,436,821	1,436,821	1,359,001	77,820
Equipment maintenance and shop	1,101,318	1,101,318	1,028,667	72,651
Other	160,600	160,600	264,123	(103,523)
Total Expenditures	\$ 4,050,588	\$ 4,050,588	\$ 3,816,806	\$ 233,782
Excess of Revenues Over (Under) Expenditures	\$ (20,000)	\$ (20,000)	\$ 503,898	\$ 523,898
Other Financing Sources (Uses)				
Transfers in	10,000	10,000	11,279	1,279
Net Change in Fund Balance	\$ (10,000)	\$ (10,000)	\$ 515,177	\$ 525,177
Fund Balance - January 1	321,364	321,364	321,364	-
Increase (decrease) in reserved for inventories	-	-	57,444	57,444
Fund Balance - December 31	\$ 311,364	\$ 311,364	\$ 893,985	\$ 582,621

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 7

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,648,713	\$ 1,483,455	\$ 1,479,509	\$ (3,946)
Intergovernmental	2,115,539	2,280,797	2,684,368	403,571
Charges for services	157,650	157,650	262,991	105,341
Miscellaneous	243,400	243,400	321,093	77,693
Total Revenues	\$ 4,165,302	\$ 4,165,302	\$ 4,747,961	\$ 582,659
Expenditures				
Current				
Human services				
General administration	\$ 578,744	\$ -	\$ 28,656	\$ (28,656)
Income maintenance	749,689	923,312	951,493	(28,181)
Social services	2,426,641	2,756,525	3,180,256	(423,731)
Total human services	\$ 3,755,074	\$ 3,679,837	\$ 4,160,405	\$ (480,568)
Health				
Community health services	420,228	495,465	455,414	40,051
Total Expenditures	\$ 4,175,302	\$ 4,175,302	\$ 4,615,819	\$ (440,517)
Excess of Revenues Over (Under) Expenditures	\$ (10,000)	\$ (10,000)	\$ 132,142	\$ 142,142
Other Financing Sources (Uses)				
Transfers out	-	-	(80,902)	(80,902)
Net Change in Fund Balance	\$ (10,000)	\$ (10,000)	\$ 51,240	\$ 61,240
Fund Balance - January 1	1,337,524	1,337,524	1,337,524	-
Fund Balance - December 31	\$ 1,327,524	\$ 1,327,524	\$ 1,388,764	\$ 61,240

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 8

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 118,000	\$ 118,000	\$ 131,687	\$ 13,687
Miscellaneous	-	-	300	300
Total Revenues	\$ 118,000	\$ 118,000	\$ 131,987	\$ 13,987
Expenditures				
Current				
Conservation of natural resources				
Other (ditch repairs)	\$ 118,000	\$ 118,000	\$ 27,387	\$ 90,613
Debt service				
Interest	-	-	1,052	(1,052)
Total Expenditures	\$ 118,000	\$ 118,000	\$ 28,439	\$ 89,561
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 103,548	\$ 103,548
Other Financing Sources (Uses)				
Transfers in	-	-	11,429	11,429
Net Change in Fund Balance	\$ -	\$ -	\$ 114,977	\$ 114,977
Fund Balance - January 1	102,610	102,610	102,610	-
Fund Balance - December 31	\$ 102,610	\$ 102,610	\$ 217,587	\$ 114,977

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 9

**STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2007**

<u>Assets</u>	
Cash and pooled investments	<u>\$ 188,157</u>
<u>Liabilities</u>	
Due to other governments	<u>\$ 188,157</u>

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2007. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Joint Ventures

The County participates in joint ventures described in Note 5.B. The County also participates in jointly-governed organizations described in Note 5.C.

B. Basic Financial Statements

1. County-Wide Statements

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. County-Wide Statements (Continued)

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

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

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

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

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

Additionally, the County reports the following fund types:

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

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

C. Measurement Focus and Basis of Accounting

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2007, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Pooled investment earnings for 2007 were \$290,041.

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the County:

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

Investments of the County are reported at fair value.

2. Receivables and Payables

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

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

3. Inventories

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

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

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (such as roads and bridges), are reported in the county-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Capital Assets (Continued)

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

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

5. Compensated Absences

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

6. Deferred Revenue

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Long-Term Obligations

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

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

8. Fund Equity

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

9. Use of Estimates

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

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

On or before mid-August of each year, all departments submit requests for appropriations to the County Auditor so that a budget can be prepared. Before October 31, the proposed budget is presented to the County Board for review. The Board holds public hearings, and a final budget must be prepared and adopted no later than December 31.

The appropriated budget is prepared by fund, function, and department. Transfers of appropriations within a department and between departments require approval of the County Board. The legal level of budgetary control--the level at which expenditures may not legally exceed appropriations--is the fund level. The Board made a budget adjustment for the bond sale proceeds as well as some immaterial adjustments.

Encumbrance accounting is employed in governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reapportioned and honored during the subsequent year.

B. Excess of Expenditures Over Budget

The funds shown below had expenditures in excess of budget for the year ended December 31, 2007.

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund	\$ 5,333,675	\$ 5,070,497	\$ 263,178
Human Services Special Revenue Fund	4,615,819	4,175,302	440,517
Debt Service Fund	2,375,313	332,703	2,042,610
Solid Waste Special Revenue Fund	245,961	235,750	10,211

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Governmental funds	
Cash and pooled investments	\$ 7,849,365
Fiduciary funds	
Cash and pooled investments	
Agency funds	<u>188,157</u>
Total Cash and Investments	<u>\$ 8,037,522</u>

a. Deposits

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

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. It is County policy to minimize custodial credit risk of deposits by making deposits with financial institutions as defined by Minn. Stat. § 118A.01, and by obtaining necessary documentation of perfected security interest in pledged collateral from the financial institutions. As of December 31, 2007, the County's deposits were not exposed to custodial credit risk.

b. Investments

Interest Rate Risk

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

Credit Risk

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

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

At December 31, 2007, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's policy to minimize concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimal. As of December 31, 2007, all of the County's investment, carrying value balance of \$584,855, was invested in the MAGIC Fund.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2007, for the County are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Taxes - prior	\$ 138,881	\$ -
Special assessments - prior	22,413	-
Special assessments - noncurrent	683,762	515,378
Accounts	249,434	-
Accrued interest	60,821	-
Due from other governments	1,522,241	199,500
Total	\$ 2,677,552	\$ 714,878

3. Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 695,771	\$ -	\$ -	\$ 695,771
Construction in progress	833,903	300,654	800,317	334,240
Total capital assets not depreciated	\$ 1,529,674	\$ 300,654	\$ 800,317	\$ 1,030,011
Capital assets depreciated				
Buildings	\$ 7,011,387	\$ 849,181	\$ -	\$ 7,860,568
Land improvements	49,128	-	-	49,128
Machinery, furniture, and equipment	5,349,576	321,989	305,286	5,366,279
Infrastructure	40,591,744	768,424	-	41,360,168
Total capital assets depreciated	\$ 53,001,835	\$ 1,939,594	\$ 305,286	\$ 54,636,143

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Less: accumulated depreciation for				
Buildings	\$ 1,905,067	\$ 173,814	\$ -	\$ 2,078,881
Land improvements	12,263	2,457	-	14,720
Machinery, furniture, and equipment	3,406,985	444,065	305,286	3,545,764
Infrastructure	<u>10,442,935</u>	<u>819,334</u>	<u>-</u>	<u>11,262,269</u>
 Total accumulated depreciation	 <u>\$ 15,767,250</u>	 <u>\$ 1,439,670</u>	 <u>\$ 305,286</u>	 <u>\$ 16,901,634</u>
Total capital assets depreciated, net	<u>\$ 37,234,585</u>	<u>\$ 499,924</u>	<u>\$ -</u>	<u>\$ 37,734,509</u>
 Capital Assets, Net	 <u><u>\$ 38,764,259</u></u>	 <u><u>\$ 800,578</u></u>	 <u><u>\$ 800,317</u></u>	 <u><u>\$ 38,764,520</u></u>

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

General government	\$ 250,644
Public safety	97,924
Highways and streets, including depreciation of infrastructure assets	1,046,105
Sanitation	846
Environmental services	663
Human services	<u>43,488</u>
 Total Depreciation Expense	 <u><u>\$ 1,439,670</u></u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Human Services	\$ 23,625
Road and Bridge	General	\$ 34,589
	County Ditch	3,018
	Solid Waste	2,134
Total due to Road and Bridge Fund		\$ 39,741
Total Due To/From Other Funds		<u>\$ 63,366</u>

2. Advances To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	County Ditch	\$ 9,440

3. Interfund Transfers

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>	<u>Purpose</u>
General	Road and Bridge	\$ 11,279	Allocated interest
	County Ditch	11,429	Allocated interest
	County Library	4,778	Allocated interest
Total transfers out of General Fund		\$ 27,486	
Human Services	General	80,902	2007 rent
Total Transfers In/Out		<u>\$ 108,388</u>	

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Long-Term Debt

Bonds

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amount</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2007</u>
G.O. Capital Improvement Refunding Bonds, Series 2004A	2021	\$120,000 - \$190,000	2.75 - 4.50	\$ 2,115,000	\$ 2,115,000
G.O. Capital Improvement Bonds, Series 2005A	2026	\$30,000 - \$60,000	3.50 - 4.40	<u>845,000</u>	<u>815,000</u>
Total				<u>\$ 2,960,000</u>	\$ 2,930,000
Less: unamortized discount					<u>(38,822)</u>
Total General Obligation Bonds, Net					<u>\$ 2,891,178</u>

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

Loans Payable

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

1. Long-Term Debt

Loans Payable (Continued)

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amount</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2007</u>
Watonwan Watershed Clean Water Partnership Project, SFR0047	2014	\$26,928	2.00	\$ 485,926	\$ 326,734
Watonwan Watershed Continuation Clean Water Partnership Project, SFR0108	2017	\$28,194	2.00	541,173	541,173
Watonwan Ag Best Management Loan Program	N/A	N/A	N/A	63,519	63,519
Total Loans				<u>\$ 1,090,618</u>	<u>\$ 931,426</u>

2. Debt Service Requirements

Debt service requirements at December 31, 2007, were as follows:

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>		<u>Loans Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 150,000	\$ 113,205	\$ 96,959	\$ 16,876
2009	155,000	108,630	98,907	14,927
2010	165,000	103,470	100,895	12,939
2011	165,000	97,788	102,923	10,911
2012	170,000	91,788	104,992	8,842
2013 - 2017	940,000	356,511	363,231	17,444
2018 - 2022	960,000	141,097	-	-
2023 - 2027	225,000	20,102	-	-
Total	<u>\$ 2,930,000</u>	<u>\$ 1,032,591</u>	<u>\$ 867,907</u>	<u>\$ 81,939</u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Debt Service Requirements (Continued)

The debt service requirements for the loan from the Minnesota Department of Agriculture in the amount of \$63,519 are not known as of December 31, 2007.

Crossover Refunding of Bonds

In 2004, \$2,115,000 General Obligation Capital Improvement Refunding Bonds were sold to refund the General Obligation Capital Improvement Bonds of 2000. The proceeds from the refunding bonds were placed with an escrow agent in an irrevocable trust from which U.S. Treasury securities were purchased. The County was responsible for the principal and interest payments on the original issue through 2007. The 2000 Series bond issue was called in February 2007.

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
G.O. Capital Improvement Bonds, Series 2000A	\$ 2,095,000	\$ -	\$ 2,095,000	\$ -	\$ -
G.O. Capital Improvement Bonds, Series 2005A	845,000	-	30,000	815,000	30,000
G. O. Capital Improvement Refunding Bonds, Series 2004A	2,115,000	-	-	2,115,000	120,000
G.O. Capital Notes, Series 2003	70,000	-	70,000	-	-
Less: unamortized discount on bonds	(41,608)	-	(2,786)	(38,822)	-
Total bonds payable	\$ 5,083,392	\$ -	\$ 2,192,214	\$ 2,891,178	\$ 150,000
Loans payable	874,695	103,351	46,620	931,426	96,958
Compensated absences	830,401	94,648	-	925,049	509,356
Long-Term Liabilities	<u>\$ 6,788,488</u>	<u>\$ 197,999</u>	<u>\$ 2,238,834</u>	<u>\$ 4,747,653</u>	<u>\$ 756,314</u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

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 Insurance Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$400,000 per claim in 2007 and \$410,000 per claim in 2008. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

E. Other Postemployment Benefits

Watonwan County provides postemployment health care benefits for retirees and elected officials. Within 60 days of the effective date of an elected county official's retirement or termination, the County shall contribute an amount equal to the annual premium for single health insurance coverage in effect at the time of termination or retirement for every four complete years of service. As of December 31, 2007, the County recorded a liability of \$81,540 for the elected official's termination benefits as a part of the compensated absences liability.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description

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

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund.

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

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For all Public Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.75 percent, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan increased in 2008 to 6.00 percent. Public Employees Police and Fire Fund members were required to contribute 7.80 percent of their annual covered salary in 2007. That rate increased to 8.60 percent in 2008. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

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

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

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

	2007	2006	2005
Public Employees Retirement Fund	\$ 277,615	\$ 252,198	\$ 223,265
Public Employees Police and Fire Fund	48,898	43,865	39,678
Public Employees Correctional Fund	17,033	16,170	15,322

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

B. Defined Contribution Plan

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Pension Plans

B. Defined Contribution Plan (Continued)

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

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

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 7,732	\$ 7,732
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

5. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

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

B. Joint Ventures

Red Rock Rural Water System

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

The governing body is composed of nine members appointed to three-year terms by the District Court. Each county is responsible for levying and collecting the special assessments from the benefited properties within the county. The bond issue and notes payable are shown as long-term debt in the financial statements of the Red Rock Rural Water System. Outstanding bonds at December 31, 2006 (the most current information available), amounted to \$11,145,000; notes payable were \$259,310. The Water System's net assets increased by \$26,692 in 2006.

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

Three Counties for Kids Collaborative

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

Control of the Collaborative is vested in a Board of Directors consisting of seven members. Brown County Family Services acts as fiscal agent for the Collaborative. The Collaborative is financed by Local Collaborative Time Study (LCTS) funds. During 2007, Watonwan County made no contributions to the Collaborative. Any withdrawing party remains liable for fiscal obligations incurred prior to the effective date of withdrawal and shall not be entitled to any compensation as long as the

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Three Counties for Kids Collaborative (Continued)

Collaborative continues in existence. Should the Collaborative cease to exist, all property, real and personal, at the time of the termination shall be distributed by the Three Counties for Kids Collaborative Board of Directors.

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

Vision for Family and Community Collaborative

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

Control of the Collaborative is vested in a Joint Powers Board. The Joint Powers Board is composed of nine members. Watonwan County Human Services acts as fiscal agent for the Collaborative. The Collaborative is financed by LCTS funds. During 2007, Watonwan County made no contributions to the Collaborative. Any withdrawing party remains fiscally liable until the effective date of withdrawal. Should the Collaborative cease to exist, all property, real and personal, held by the Joint Powers Board at the time of the termination shall be distributed by resolution of the Board in accordance with law and in a manner to best accomplish the purpose of the Collaborative.

Rural Minnesota Energy Board

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Rural Minnesota Energy Board (Continued)

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 2007, Watonwan County paid \$2,000 to the Board.

C. Jointly-Governed Organizations

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

The Minnesota River Board promotes orderly water quality improvement and management of the Minnesota River Watershed. During the year, the County made no contributions to the Board. The County's \$1,175 contribution for 2007 was not paid until 2008.

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

The Minnesota Counties Computer Cooperative provides computer programming services for the County. During the year, the County purchased \$108,717 of services.

The South Central Regional IMMTRACK (immunization registry) Joint Powers Board promotes the implementation and maintenance of a regional immunization information system to ensure age-appropriate immunizations through complete and accurate records. During the year, the County paid \$1,270 to the Board.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

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

D. Agricultural Best Management Loan Program

The County has entered into an agreement with the Minnesota Department of Agriculture and a local lending institution to jointly administer a loan program to individuals to implement projects that prevent or mitigate non-point source water pollution. While the County is not liable for the repayment of the loan in any manner, it does have certain responsibilities under the agreement. The County has met those responsibilities for 2007.

E. Special Benefit Tax Levy

In 1993, the South Central Minnesota Multi-County Housing Authority issued \$20,315,000 of revenue bonds to construct housing units in Watonwan County and four surrounding counties. The Authority has since defaulted on these bonds. In 2000, the counties entered into a settlement agreement where each of the counties will approve a special benefit tax levy on behalf of the Authority from 2001 through 2024 to cover the operating deficits based on each county's proportionate share of housing units constructed. Watonwan County's proportionate share of the operating deficit for 2007 is \$78,309. The proportionate share of the counties may change for years 2008 through 2024 if there are changes in the taxable market value over the 2001 taxable market value.

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**COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS
AND SCHEDULE**

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

Statement 1

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 245,700	\$ 221,382	\$ 220,767	\$ (615)
Intergovernmental	19,680	43,998	34,561	(9,437)
Investment earnings	-	-	29,073	29,073
Total Revenues	\$ 265,380	\$ 265,380	\$ 284,401	\$ 19,021
Expenditures				
Debt service				
Principal	\$ 332,703	\$ 332,703	\$ 2,195,000	\$ (1,862,297)
Interest	-	-	180,313	(180,313)
Total Expenditures	\$ 332,703	\$ 332,703	\$ 2,375,313	\$ (2,042,610)
Net Change in Fund Balance	\$ (67,323)	\$ (67,323)	\$ (2,090,912)	\$ (2,023,589)
Fund Balance - January 1	2,349,134	2,349,134	2,349,134	-
Fund Balance - December 31	\$ 2,281,811	\$ 2,281,811	\$ 258,222	\$ (2,023,589)

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

OTHER GOVERNMENTAL FUNDS

Special Revenue Funds

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

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

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

Statement 2

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

	Special Revenue Funds		Total
	County Library	Solid Waste	
<u>Assets</u>			
Cash and pooled investments	\$ 495,226	\$ 422,153	\$ 917,379
Taxes receivable			
Prior	9,825	256	10,081
Special assessments receivable			
Prior	-	13,904	13,904
Accrued interest receivable	2,156	-	2,156
	\$ 507,207	\$ 436,313	\$ 943,520
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 3,640	\$ 17,651	\$ 21,291
Salaries payable	9,880	-	9,880
Due to other funds	-	2,134	2,134
Deferred revenue - unavailable	6,191	9,830	16,021
	\$ 19,711	\$ 29,615	\$ 49,326
Fund Balances			
Reserved for donations	\$ 155,137	\$ -	\$ 155,137
Unreserved			
Designated for cash flows	264,711	6,875	271,586
Designated for compensated absences	51,692	-	51,692
Undesignated	15,956	399,823	415,779
	\$ 487,496	\$ 406,698	\$ 894,194
Total Fund Balances	\$ 487,496	\$ 406,698	\$ 894,194
Total Liabilities and Fund Balances	\$ 507,207	\$ 436,313	\$ 943,520

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

Statement 3

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

	Special Revenue Funds		Total
	County Library	Solid Waste	
Revenues			
Taxes	\$ 425,540	\$ 10,912	\$ 436,452
Special assessments	-	170,787	170,787
Intergovernmental	122,397	55,175	177,572
Charges for services	4,576	-	4,576
Fines and forfeits	9,569	-	9,569
Gifts and contributions	3,021	-	3,021
Investment earnings	7,985	-	7,985
Miscellaneous	3,593	9,765	13,358
Total Revenues	\$ 576,681	\$ 246,639	\$ 823,320
Expenditures			
Current			
Sanitation	\$ -	\$ 245,961	\$ 245,961
Culture and recreation	532,919	-	532,919
Total Expenditures	\$ 532,919	\$ 245,961	\$ 778,880
Excess of Revenues Over (Under) Expenditures	\$ 43,762	\$ 678	\$ 44,440
Other Financing Sources (Uses)			
Transfers in	4,778	-	4,778
Net Change in Fund Balances	\$ 48,540	\$ 678	\$ 49,218
Fund Balances - January 1	438,956	406,020	844,976
Fund Balances - December 31	\$ 487,496	\$ 406,698	\$ 894,194

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

Statement 4

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 474,114	\$ 427,115	\$ 425,540	\$ (1,575)
Intergovernmental	74,869	121,868	122,397	529
Charges for services	-	-	4,576	4,576
Fines and forfeits	13,022	13,022	9,569	(3,453)
Gifts and contributions	2,266	2,266	3,021	755
Investment earnings	-	-	7,985	7,985
Miscellaneous	-	-	3,593	3,593
Total Revenues	\$ 564,271	\$ 564,271	\$ 576,681	\$ 12,410
Expenditures				
Current				
Culture and recreation				
County library	566,271	566,271	532,919	33,352
Excess of Revenues Over (Under) Expenditures	\$ (2,000)	\$ (2,000)	\$ 43,762	\$ 45,762
Other Financing Sources (Uses)				
Transfers in	-	-	4,778	4,778
Net Change in Fund Balance	\$ (2,000)	\$ (2,000)	\$ 48,540	\$ 50,540
Fund Balance - January 1	438,956	438,956	438,956	-
Fund Balance - December 31	\$ 436,956	\$ 436,956	\$ 487,496	\$ 50,540

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

Statement 5

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 12,131	\$ 10,926	\$ 10,912	\$ (14)
Special assessments	-	169,625	170,787	1,162
Intergovernmental	50,994	52,199	55,175	2,976
Charges for services	169,625	-	-	-
Miscellaneous	3,000	3,000	9,765	6,765
	<u>3,000</u>	<u>3,000</u>	<u>9,765</u>	<u>6,765</u>
Total Revenues	\$ 235,750	\$ 235,750	\$ 246,639	\$ 10,889
Expenditures				
Current				
Sanitation				
SCORE	235,750	235,750	245,961	(10,211)
	<u>235,750</u>	<u>235,750</u>	<u>245,961</u>	<u>(10,211)</u>
Net Change in Fund Balance	\$ -	\$ -	\$ 678	\$ 678
Fund Balance - January 1	406,020	406,020	406,020	-
	<u>406,020</u>	<u>406,020</u>	<u>406,020</u>	<u>-</u>
Fund Balance - December 31	\$ 406,020	\$ 406,020	\$ 406,698	\$ 678
	<u><u>406,020</u></u>	<u><u>406,020</u></u>	<u><u>406,698</u></u>	<u><u>678</u></u>

**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.

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

Statement 6

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

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>AGENCY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>12,495</u>	\$ <u>2,085,892</u>	\$ <u>2,084,454</u>	\$ <u>13,933</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>12,495</u>	\$ <u>2,085,892</u>	\$ <u>2,084,454</u>	\$ <u>13,933</u>
 <u>VISION FOR FAMILY AND COMMUNITY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>73,249</u>	\$ <u>87,753</u>	\$ <u>89,357</u>	\$ <u>71,645</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>73,249</u>	\$ <u>87,753</u>	\$ <u>89,357</u>	\$ <u>71,645</u>
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>133,425</u>	\$ <u>10,932,797</u>	\$ <u>10,963,643</u>	\$ <u>102,579</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>133,425</u>	\$ <u>10,932,797</u>	\$ <u>10,963,643</u>	\$ <u>102,579</u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

Statement 6
(Continued)

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

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>219,169</u>	\$ <u>13,106,442</u>	\$ <u>13,137,454</u>	\$ <u>188,157</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>219,169</u>	\$ <u>13,106,442</u>	\$ <u>13,137,454</u>	\$ <u>188,157</u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

Schedule 1

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

Shared Revenue

State

Highway users tax	\$	2,526,251
PERA rate reimbursement		19,906
Disparity reduction aid		5,078
Police aid		43,865
County program aid		933,872
Market value credit		620,831
Enhanced 911		84,813
		84,813

Total Shared Revenue **\$ 4,234,616**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	1,146,001
		1,146,001

Payments

Local

Local contributions	\$	10,180
Payments in lieu of taxes		16,998
		16,998

Total Payments **\$ 27,178**

Grants

State

Minnesota Department/Board of		
Public Safety	\$	46,035
Health		65,575
Environmental Assistance		52,039
Natural Resources		6,791
Trial Courts		19,672
Human Services		689,546
Corrections		51,021
Commerce		8,387
Transportation		104,058
Water and Soil Resources		72,850
Other		5,671
Pollution Control Agency		85,272
Peace Officer Standards and Training Board		2,814
		2,814

Total State **\$ 1,209,731**

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**Schedule 1
(Continued)**

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

Grants (Continued)

Federal

Department of

Agriculture

\$ 79,358

Justice

10,467

Transportation

295,785

Health and Human Services

324,076

Homeland Security

9,240

Total Federal

\$ 718,926

Total State and Federal Grants

\$ 1,928,657

Total Intergovernmental Revenue

\$ 7,336,452

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

Schedule 2

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

I. SUMMARY OF AUDITOR'S RESULTS

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

Highway Planning and Construction	CFDA #20.205
Temporary Assistance for Needy Families	CFDA #93.558
Social Services Block Grant Title XX	CFDA #93.667
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Watonwan County was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

05-1 Transit Department Segregation of Duties and Procedures

Due to the limited number of office personnel within the Watonwan County Transit Department, segregation of the accounting functions necessary to ensure adequate internal control is not possible. The office has only one employee to receive and account for departmental collections. This is not unusual in operations the size of Watonwan County; however, the County's management should constantly be aware of this condition and realize the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

Since our prior audit, some procedures have been implemented to strengthen internal control over collections. Deposits are remitted on a weekly basis, and checks are stamped immediately upon receipt. However, improvements need to be made to the procedures matching deposits with source documents. The majority of the deposits we reviewed did not reconcile to the supporting report.

We recommend that the County's management continue to be aware of the lack of segregation of duties within certain accounting functions and continue to implement procedures to ensure adequate controls are in place over cash, receivables, and other items. Specifically, we recommend that the County consider performing a daily reconciliation of deposits to source documents to determine the cause of variances.

Client's Response:

Will try to improve on the daily reconciliation of fares compared to the time sheets of the transit drivers. Although people do not always put in the correct fare and the transit drivers will not notice it, the drivers will put down the amount the fare was supposed to be, thinking people had put in the correct fare.

06-1 Preparation of Financial Statements

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

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

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

Client's Response:

We will continue to improve procedures with the goal of preparing statements according to GAAP.

06-2 Audit Adjustments

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the financial statements on a timely basis. One control deficiency that typically is considered significant is identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls. During our audit, we proposed the following adjustments that resulted in significant changes to the County's financial statements:

- record deferred special assessments receivable (\$72,500 to the County Ditch Special Revenue Fund and \$600,900 to the General Fund for septic loans);
- reclassify tax revenue as special assessment revenue in the County Ditch Special Revenue Fund (\$107,000);

Schedule 2
(Continued)

- reclassify conservation expenditures as a reduction to advances from other funds in the County Ditch Special Revenue Fund (\$132,400);
- record activity in the Debt Service Fund for bond proceeds held in escrow (\$2,041,100);
- record additional receivable/deferred revenue in the Debt Service Fund (\$211,500) and in the Road and Bridge Special Revenue Fund (\$898,300);
- record various fund balance designations and reservations (\$412,800 in the General Fund, \$211,500 in the Road and Bridge Special Revenue Fund, \$276,300 in the Human Services Special Revenue Fund, and \$51,700 in the County Library Special Revenue Fund);
- allocate Individual Sewage Treatment System (ISTS) loan activity and record accumulated interest (\$177,200) in the General Fund; and
- reclassify an advance to the County Ditch Special Revenue Fund (\$145,200).

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

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

Client's Response:

Improvements will be made to the system to reduce the audit entries.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

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

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

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

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

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

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

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



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

Board of County Commissioners
Watonwan County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Watonwan County as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 26, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination

of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 05-1, 06-1, and 06-2 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Watonwan County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, Watonwan County complied with the material terms and conditions of applicable legal provisions.

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

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 26, 2008

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

Board of County Commissioners
Watonwan County

Compliance

We have audited the compliance of Watonwan County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. Watonwan County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Watonwan County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, Watonwan County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

Internal Control Over Compliance

The management of Watonwan County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Watonwan County as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 26, 2008. Our audit was performed for the purpose of forming opinions on the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements.

Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 26, 2008

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

Schedule 3

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 75,160
Passed Through Minnesota Department of Human Services State Administrative Matching Grant for Food Stamp Program	10.561	3,898
Passed Through Minnesota Department of Agriculture WIC Farmers Market Nutrition Program (FMNP)	10.572	<u>300</u>
Total U.S. Department of Agriculture		<u>\$ 79,358</u>
U.S. Department of Justice		
Direct Criminal Alien Assistance Program	16.606	<u>\$ 10,467</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 242,931
Public Transportation for Non-Urbanized Areas	20.509	<u>52,854</u>
Total U.S. Department of Transportation		<u>\$ 295,785</u>
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Health Centers for Disease Control and Prevention	93.283	\$ 22,663
Temporary Assistance for Needy Families (TANF)	93.558	16,020
Maternal and Child Health Services Block Grant	93.994	18,512
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	81
Temporary Assistance for Needy Families (TANF)	93.558	79,337
Child Care Development Block Grant	93.575	1,193
Child Care Mandatory and Matching Funds	93.596	1,501
Foster Care Title IV-E	93.658	67,476
Social Services Block Grant Title XX	93.667	91,827
Chafee Foster Care Independence Program	93.674	26,708
Community Mental Health Services Block Grant	93.958	<u>1,691</u>
Total U.S. Department of Health and Human Services		<u>\$ 327,009</u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

Schedule 3
(Continued)

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Emergency Management Performance Grant	97.042	<u>\$ 9,240</u>
Total Federal Awards		<u><u>\$ 721,859</u></u>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Watonwan County. The County's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting. In some instances, expenditures shown are different than reported revenues because they are not available.
3. During the year, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.