

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

WATONWAN COUNTY
ST. JAMES, MINNESOTA

YEAR ENDED DECEMBER 31, 2011

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

Year Ended December 31, 2011



**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
2011**

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Commissioners		
1st District	Raymond Gustafson	January 2013
2nd District	Mark Rentz*	January 2015
3rd District	William Berg	January 2013
4th District	Scott Sanders	January 2015
5th District	John Baerg	January 2013
Officers		
Elected		
Attorney	Stephen Lindee	January 2015
Auditor	Donald Kuhlman	January 2015
County Recorder	Joy Sing	January 2015
Sheriff	Gary Messen	January 2015
Treasurer	Carol F. Johnson	January 2015
Appointed		
Assessor	Mike Wacker	January 2013
Court Administrator (State)	Carol Melick	Indefinite
Coroner	Dr. Lindy Eatwell	January 2015
Highway Engineer	Roger Risser	May 2015
Probation Officer	Paul Harris	Indefinite
Veterans Service Officer	Deb Grote	Indefinite
Human Services Director	Richard Collins	Indefinite

*2011 Chair

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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

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

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Watonwan County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Watonwan County, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Watonwan 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (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 of Watonwan County as of December 31, 2011, 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, County Ditch Special Revenue Fund, and Solid Waste Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1.D.9. to the financial statements, for 2011, the County adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Watonwan County's basic financial statements as a whole. The supplementary information, including the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2012, on our consideration of Watonwan County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 17, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011
(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, 2011. 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 2011 by \$52,979,014. Of this amount, \$8,994,444 (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 \$3,717,683 in 2011.
- At the close of 2011, Watonwan County's governmental funds reported combined ending fund balances of \$10,458,948, of which \$4,682,163 is unassigned and is available for spending at the County's discretion.
- At the close of 2011, unassigned fund balance for the General Fund was \$4,813,717, or 68.8 percent, of total General Fund expenditures.
- Watonwan County's total bonds and capital notes payable decreased by \$1,575,000. There were payments of \$35,000 and \$1,740,000 on the G.O. Capital Improvement Bonds and the G.O. Capital Improvement Refunding Bonds, respectively. In March, the County issued Capital Notes in the amount of \$ 200,000 (G.O. Capital Notes, Series 2011). The G.O. Capital Improvement Refunding Bonds, Series 2004A, were refunded in 2011. The amount of the refunding was \$1,740,000.

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.

Watonwan County reports six major funds. The major funds are the General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, County Ditch Special Revenue Fund, Solid Waste Special Revenue Fund, and the Debt Service Fund. Information is presented separately for the major funds on Exhibits 3 and 5.

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

Watonwan County's governmental fund financial statements are on Exhibits 3 to 11, and Watonwan County's fiduciary funds are on Exhibit 12.

Notes to the Financial Statements

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

Other Information

In addition to the basic financial statements and notes, this report also presents certain required supplementary information concerning Watonwan County's progress in funding its obligation to provide other postemployment benefits to its employees (Exhibit A-1). In addition, the County also provides supplementary information on intergovernmental revenue and expenditures of federal awards (Exhibits D-1 and D-2).

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

County-Wide Financial Analysis

Over time, net assets serve as a useful indicator of the County's financial position. Watowan County's assets exceeded liabilities by \$52,979,014 at the close of 2011. The largest portion of Watowan County's net assets (79.3 percent) reflects its investment in capital assets (for example, land, buildings, and equipment), less any related debt used to acquire those assets that are still outstanding. However, it should be noted that these assets are not available for future spending.

Governmental Net Assets

	<u>2010</u>	<u>2011</u>
Current and other assets	\$ 14,087,161	\$ 13,517,209
Capital assets	<u>41,687,619</u>	<u>44,625,379</u>
Total Assets	<u>\$ 55,774,780</u>	<u>\$ 58,142,588</u>
Long-term liabilities outstanding	\$ 5,696,537	\$ 4,179,589
Other liabilities	<u>816,912</u>	<u>983,985</u>
Total Liabilities	<u>\$ 6,513,449</u>	<u>\$ 5,163,574</u>
Net Assets		
Invested in capital assets - net of related debt	\$ 39,234,020	\$ 42,008,962
Restricted	3,244,816	1,975,608
Unrestricted	<u>6,782,495</u>	<u>8,994,444</u>
Total Net Assets	<u>\$ 49,261,331</u>	<u>\$ 52,979,014</u>

The unrestricted net asset amount of \$8,994,444 as of December 31, 2011, may be used to meet the County's ongoing obligations to citizens and creditors.

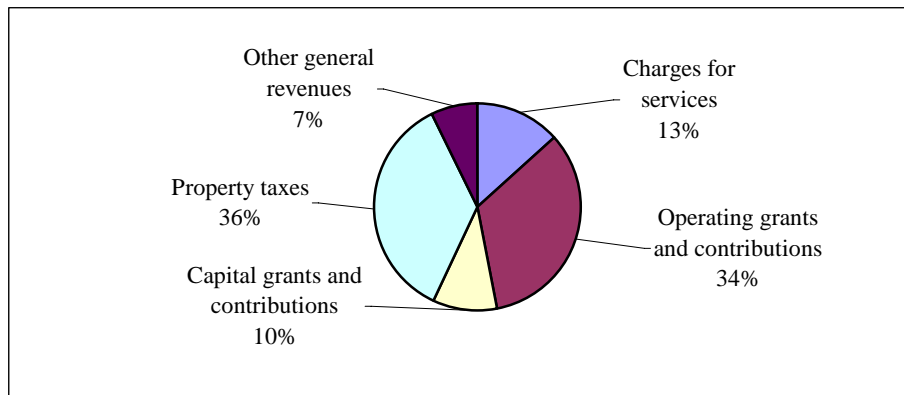
Governmental Activities

The following table summarizes the changes in net assets for 2011.

Changes in Governmental Net Assets

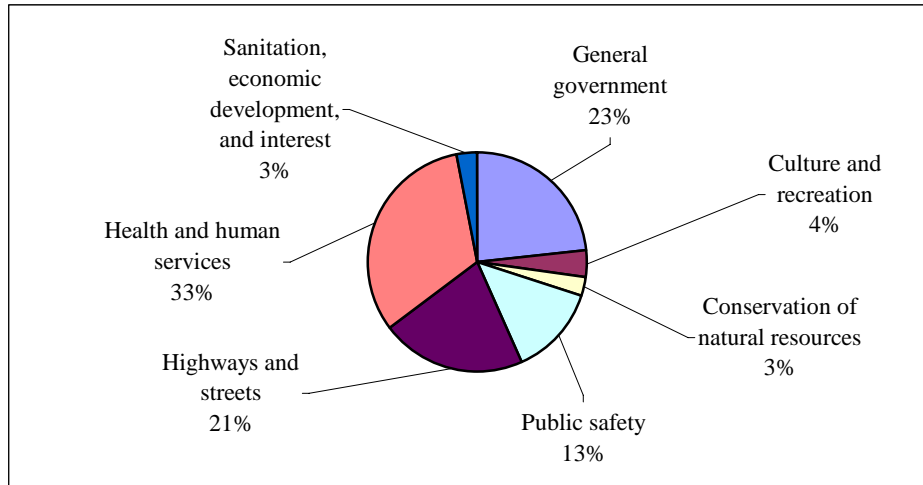
	2010	2011
Revenues		
Program revenues		
Charges for services	\$ 2,504,424	\$ 2,502,355
Operating grants and contributions	5,769,936	6,357,320
Capital grants and contributions	566,248	1,912,743
General revenues		
Property taxes	6,679,911	6,800,171
Other	1,466,365	1,345,808
Total Revenues	\$ 16,986,884	\$ 18,918,397
Expenses		
General government	\$ 3,278,784	\$ 3,539,954
Public safety	1,947,291	2,034,811
Highways and streets	3,845,020	3,266,073
Sanitation	283,809	273,119
Human services	4,238,905	4,403,569
Health	454,162	473,275
Culture and recreation	614,650	603,364
Conservation of natural resources	434,800	401,176
Economic development	146,167	117,679
Interest	123,664	87,694
Total Expenses	\$ 15,367,252	\$ 15,200,714
Increase in Net Assets	\$ 1,619,632	\$ 3,717,683
Net Assets - January 1	47,641,699	49,261,331
Net Assets - December 31	\$ 49,261,331	\$ 52,979,014

Sources of County Revenues



(Unaudited)

Where County Funds Are Spent



FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

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

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

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$10,458,948. Of this amount, \$4,682,163 constitutes unassigned fund balance. The remainder of fund balance is nonspendable, restricted, or assigned to indicate that it is not available for new spending.

The General Fund is the chief operating fund of Watonwan County. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$4,813,717, while the total fund balance was \$5,445,574. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to annual expenditures. Unassigned fund balance represents 68.8 percent of total General Fund expenditures for 2011, while total fund balance represents 77.8 percent of total General Fund expenditures. In 2011, the total fund balance in the General Fund decreased by \$163,422, with unassigned fund balances increasing by \$496,651 and restricted fund balances decreasing by \$125,665. The primary reason for the increase in unassigned fund balance was due to reporting the Library Special Revenue Fund as part of the General Fund. The primary reason for the decrease in restricted fund balance was due to the payments for new E911 equipment.

The Road and Bridge Special Revenue Fund's fund balance increased by \$501,745 in 2011. The main reason for the increase was construction and maintenance activities variance from budget.

In 2011, the Human Services Special Revenue Fund's fund balance increased by \$163,640.

General Fund Budgetary Highlights

The largest revenue variances were in miscellaneous revenue, which were due to a dividend from workers' compensation and property/casualty insurance and reimbursement of expenditures from the Human Services Special Revenue Fund. On the expenditure side, actual expenditures were \$682,261 more than budgeted. Significant variances over budget were E911 Radio and Maintenance (\$465,908), which, was unbudgeted and Other General Government costs (\$412,420).

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2011, amounts to \$44,625,379 (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 \$2,987,760, of which a net increase in investment in infrastructure accounted for \$2,857,921 of that amount.

	Governmental Capital Assets (Net of Depreciation)	
	<u>2010</u>	<u>2011</u>
Land	\$ 695,771	\$ 695,771
Construction in progress	35,840	47,614
Land improvements	27,039	24,583
Buildings and improvements	5,265,449	5,086,826
Machinery, furniture, and equipment	1,400,941	1,650,085
Infrastructure	<u>34,262,579</u>	<u>37,120,500</u>
Total	<u>\$ 41,687,619</u>	<u>\$ 44,625,379</u>

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

Long-Term Debt

At the end of the current fiscal year, the County had total bonded debt outstanding of \$2,507,330, which is backed by the full faith and credit of the government. Watonwan County's bonds are not rated.

	<u>2010</u>	<u>2011</u>
General Obligation Bonds	<u>\$ 4,079,543</u>	<u>\$ 2,507,330</u>

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

Minnesota statutes limit the amount of debt that a county may levy to three percent of its total market value. As of the end of 2011, Watonwan County is well below the three percent debt limit imposed by state statutes.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

- Watonwan County's unemployment rate was 5.7 percent as of the end of 2011. This is slightly higher than the state-wide rate of 5.6 percent.
- Farm land values continued to increase in 2011, reflecting the profitability in crop farming at this time. Home values remained constant.

At the end of 2011, Watonwan County set its 2012 revenue and expenditure budgets: 2012 budgeted revenues and expenditures of \$17,753,180 and \$16,626,389, 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, 2011**

Assets

Cash and pooled investments	\$	10,398,104
Taxes receivable		
Prior - net		159,919
Special assessments receivable		
Prior - net		29,602
Noncurrent		546,458
Accounts receivable		288,044
Accrued interest receivable		15,604
Due from other governments		1,760,727
Inventories		262,277
Deferred debt issuance costs		56,474
Capital assets		
Non-depreciable		743,385
Depreciable - net of accumulated depreciation		43,881,994
Total Assets	\$	58,142,588

Liabilities

Accounts payable	\$	557,991
Salaries payable		308,375
Due to other governments		78,532
Accrued interest payable		28,069
Unearned revenue		11,018
Long-term liabilities		
Due within one year		813,169
Due in more than one year		3,366,420
Total Liabilities	\$	5,163,574

Net Assets

Invested in capital assets - net of related debt	\$	42,008,962
Restricted for		
General government		95,125
Public safety		72,263
Highways and streets		990,614
Culture and recreation		152,732
Conservation of natural resources		345,692
Economic development		18,055
Debt service		301,127
Unrestricted		8,994,444
Total Net Assets	\$	52,979,014

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Program Revenues			Net (Expense)	
Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Change in Net Assets	
<u>Functions/Programs</u>					
Primary government					
Governmental activities					
General government	\$ 3,539,954	\$ 497,055	\$ 568,199	\$ 45,134	\$ (2,429,566)
Public safety	2,034,811	240,830	197,946	-	(1,596,035)
Highways and streets	3,266,073	573,753	3,171,133	1,867,609	2,346,422
Sanitation	273,119	183,273	55,950	-	(33,896)
Human services	4,403,569	644,838	2,051,819	-	(1,706,912)
Health	473,275	18,565	238,672	-	(216,038)
Culture and recreation	603,364	27,643	24,400	-	(551,321)
Conservation of natural resources	401,176	260,047	49,201	-	(91,928)
Economic development	117,679	56,351	-	-	(61,328)
Interest	87,694	-	-	-	(87,694)
Total Governmental Activities	\$ 15,200,714	2,502,355	6,357,320	\$ 1,912,743	\$ (4,428,296)
 General Revenues					
Property taxes				\$ 6,800,171	
Mortgage registry and deed tax				7,112	
Grants and contributions not restricted to specific programs				1,083,946	
Unrestricted investment earnings				80,900	
Miscellaneous				173,850	
Total general revenues				\$ 8,145,979	
Change in net assets				\$ 3,717,683	
Net Assets - January 1				49,261,331	
Net Assets - December 31				\$ 52,979,014	

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 6,032,496	\$ 1,401,868
Taxes receivable		
Prior	89,400	21,224
Special assessments		
Prior	9,161	-
Noncurrent	458,256	-
Accounts receivable	35,876	24,406
Accrued interest receivable	15,604	-
Due from other funds	31,509	191,415
Due from other governments	25,474	1,237,361
Inventories	-	262,277
	\$ 6,697,776	\$ 3,138,551
Total Assets	\$ 6,697,776	\$ 3,138,551

EXHIBIT 3

<u>Human Services</u>	<u>County Ditch</u>	<u>Solid Waste</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
\$ 2,184,019	\$ 105,243	\$ 375,017	\$ 299,461	\$ 10,398,104
43,017	-	279	5,999	159,919
-	67	20,374	-	29,602
-	88,202	-	-	546,458
227,762	-	-	-	288,044
-	-	-	-	15,604
-	-	-	-	222,924
328,847	3,179	-	165,866	1,760,727
-	-	-	-	262,277
<u>\$ 2,783,645</u>	<u>\$ 196,691</u>	<u>\$ 395,670</u>	<u>\$ 471,326</u>	<u>\$ 13,683,659</u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 373,588	\$ 34,297
Salaries payable	155,151	46,851
Due to other funds	188,381	-
Due to other governments	-	-
Deferred revenue - unavailable	524,064	1,046,408
Deferred revenue - unearned	11,018	-
	\$ 1,252,202	\$ 1,127,556
Fund Balances		
Nonspendable		
Inventories	\$ -	\$ 262,277
Restricted for		
Law library	2,275	-
Recorder's equipment	39,139	-
Technology fees	42,050	-
Sheriff's contingency	4,707	-
Radio maintenance	67,556	-
HRA special benefit levy	18,055	-
Clean water partnership	18,997	-
ISTS loan repayments	274,685	-
Donations - veterans van	11,661	-
Donations - library	152,732	-
Ditch maintenance and repair	-	-
Debt service	-	-
Assigned to		
Road and bridge	-	1,748,718
Human services	-	-
Solid waste	-	-
Unassigned	4,813,717	-
	\$ 5,445,574	\$ 2,010,995
Total Fund Balances	\$ 5,445,574	\$ 2,010,995
Total Liabilities and Fund Balances	\$ 6,697,776	\$ 3,138,551

EXHIBIT 3
(Continued)

<u>Human Services</u>	<u>County Ditch</u>	<u>Solid Waste</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
\$ 122,489	\$ 6,375	\$ 21,242	\$ -	\$ 557,991
106,373	-	-	-	308,375
31,604	2,920	19	-	222,924
69,906	8,626	-	-	78,532
202,044	88,235	14,921	170,199	2,045,871
-	-	-	-	11,018
<u>\$ 532,416</u>	<u>\$ 106,156</u>	<u>\$ 36,182</u>	<u>\$ 170,199</u>	<u>\$ 3,224,711</u>
\$ -	\$ -	\$ -	\$ -	\$ 262,277
-	-	-	-	2,275
-	-	-	-	39,139
-	-	-	-	42,050
-	-	-	-	4,707
-	-	-	-	67,556
-	-	-	-	18,055
-	-	-	-	18,997
-	-	-	-	274,685
-	-	-	-	11,661
-	-	-	-	152,732
-	222,089	-	-	222,089
-	-	-	301,127	301,127
-	-	-	-	1,748,718
2,251,229	-	-	-	2,251,229
-	-	359,488	-	359,488
-	(131,554)	-	-	4,682,163
<u>\$ 2,251,229</u>	<u>\$ 90,535</u>	<u>\$ 359,488</u>	<u>\$ 301,127</u>	<u>\$ 10,458,948</u>
<u>\$ 2,783,645</u>	<u>\$ 196,691</u>	<u>\$ 395,670</u>	<u>\$ 471,326</u>	<u>\$ 13,683,659</u>

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF THE FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2011**

Fund balances - total governmental funds (Exhibit 3)		\$ 10,458,948
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.		44,625,379
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		2,045,871
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	\$ (2,335,000)	
Accrued interest payable	(28,069)	
Deferred debt issuance charges	56,474	
Discount on bonds	27,670	
General obligation capital notes	(200,000)	
Loans payable	(666,873)	
Net OPEB liabilities	(168,356)	
Compensated absences	(837,030)	(4,151,184)
Net Assets of Governmental Activities (Exhibit 1)		<u>\$ 52,979,014</u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	General	Road and Bridge
Revenues		
Taxes	\$ 3,804,238	\$ 915,745
Special assessments	122,028	-
Licenses and permits	9,406	-
Intergovernmental	1,490,736	4,859,325
Charges for services	646,766	347,100
Fines and forfeits	957	-
Gifts and contributions	3,816	-
Investment earnings	99,084	-
Miscellaneous	457,514	226,653
	\$ 6,634,545	\$ 6,348,823
Expenditures		
Current		
General government	\$ 3,428,817	\$ -
Public safety	2,429,502	-
Highways and streets	-	5,944,949
Sanitation	-	-
Human services	-	-
Health	-	-
Culture and recreation	602,662	-
Conservation of natural resources	301,967	-
Economic development	117,790	-
Intergovernmental	-	183,176
Capital outlay	4,836	-
Debt service		
Principal	106,004	-
Interest	9,954	-
Administrative charges	-	-
	\$ 7,001,532	\$ 6,128,125
Excess of Revenues Over (Under) Expenditures	\$ (366,987)	\$ 220,698

EXHIBIT 5

<u>Human Services</u>	<u>County Ditch</u>	<u>Solid Waste</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
\$ 1,817,223	\$ -	\$ 11,618	\$ 256,948	\$ 6,805,772
-	25,633	170,042	-	317,703
-	-	-	-	9,406
2,598,866	-	57,862	34,657	9,041,446
407,986	-	-	-	1,401,852
-	-	-	-	957
-	-	-	-	3,816
-	-	-	-	99,084
255,201	-	13,630	-	952,998
\$ 5,079,276	\$ 25,633	\$ 253,152	\$ 291,605	\$ 18,633,034
\$ -	\$ -	\$ -	\$ -	\$ 3,428,817
-	-	-	-	2,429,502
-	-	-	-	5,944,949
-	-	273,119	-	273,119
4,380,926	-	-	-	4,380,926
471,529	-	-	-	471,529
-	-	-	-	602,662
-	99,700	-	-	401,667
-	-	-	-	117,790
-	-	-	-	183,176
-	-	-	-	4,836
-	-	-	1,775,000	1,881,004
-	-	-	88,135	98,089
-	-	-	425	425
\$ 4,852,455	\$ 99,700	\$ 273,119	\$ 1,863,560	\$ 20,218,491
\$ 226,821	\$ (74,067)	\$ (19,967)	\$ (1,571,955)	\$ (1,585,457)

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>General</u>	<u>Road and Bridge</u>
Other Financing Sources (Uses)		
Transfers in	\$ 63,181	\$ 175,475
Transfers out	(177,954)	-
Capital notes issued	200,000	-
Proceeds from loan	118,338	-
	<u>203,565</u>	<u>175,475</u>
Total Other Financing Sources (Uses)	\$ 203,565	\$ 175,475
Net Change in Fund Balances	\$ (163,422)	\$ 396,173
Fund Balances - January 1, as restated (Note 1.E.)	5,608,996	1,509,250
Increase (decrease) in inventories	-	105,572
	<u>-</u>	<u>105,572</u>
Fund Balances - December 31	\$ 5,445,574	\$ 2,010,995
	<u>5,445,574</u>	<u>2,010,995</u>

EXHIBIT 5
(Continued)

Human Services	County Ditch	Solid Waste	Debt Service	Total Governmental Funds
\$ -	\$ 2,479	\$ -	\$ -	\$ 241,135
(63,181)	-	-	-	(241,135)
-	-	-	-	200,000
-	-	-	-	118,338
\$ (63,181)	\$ 2,479	\$ -	\$ -	\$ 318,338
\$ 163,640	\$ (71,588)	\$ (19,967)	\$ (1,571,955)	\$ (1,267,119)
2,087,589	162,123	379,455	1,873,082	11,620,495
-	-	-	-	105,572
\$ 2,251,229	\$ 90,535	\$ 359,488	\$ 301,127	\$ 10,458,948

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 6

**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, 2011**

Net change in fund balances - total governmental funds (Exhibit 5) \$ (1,267,119)

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

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay expenditures	\$ 4,443,038	
Depreciation expense	<u>(1,505,278)</u>	2,937,760

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

Increase in deferred revenue for taxes and special assessments	\$ 67,398	
Increase in deferred revenue for grants and allotments	<u>343,517</u>	410,915

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 new debt		
Loans payable	\$ (118,338)	
General obligation capital notes	<u>(200,000)</u>	(318,338)

Repayment of debt principal		1,881,004
-----------------------------	--	-----------

Amortization of discounts on debt and issuance costs		(8,522)
--	--	---------

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	\$ 105,572	
Change in accrued interest payable	19,342	
Change in OPEB liabilities	(55,064)	
Change in compensated absences	<u>12,133</u>	<u>81,983</u>

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 3,717,683

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 7

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 3,671,839	\$ 3,671,839	\$ 3,804,238	\$ 132,399
Special assessments	120,000	120,000	122,028	2,028
Licenses and permits	13,645	13,645	9,406	(4,239)
Intergovernmental	1,183,518	1,183,518	1,490,736	307,218
Charges for services	654,095	654,095	646,766	(7,329)
Fines and forfeits	-	-	957	957
Gifts and contributions	-	-	3,816	3,816
Investment earnings	67,300	67,300	99,084	31,784
Miscellaneous	157,742	157,742	457,514	299,772
Total Revenues	\$ 5,868,139	\$ 5,868,139	\$ 6,634,545	\$ 766,406
Expenditures				
Current				
General government				
County commissioners	\$ 214,256	\$ 214,256	\$ 195,299	\$ 18,957
Court administrator	31,200	31,200	51,909	(20,709)
Law library	14,000	14,000	21,361	(7,361)
County auditor	236,092	236,092	234,424	1,668
License center	90,160	90,160	88,985	1,175
County treasurer	139,346	139,346	134,888	4,458
Personnel	76,015	76,015	73,983	2,032
Central services	130,697	130,697	111,359	19,338
Elections	6,700	6,700	8,348	(1,648)
Information services	183,890	183,890	174,056	9,834
County attorney	252,749	270,060	253,263	16,797
Attorney's contingent	7,500	7,500	3,186	4,314
Victim witness	48,606	48,606	48,582	24
Drug court	3,528	3,528	-	3,528
County recorder	165,722	165,722	176,010	(10,288)
County assessor	242,573	242,573	235,791	6,782
Building maintenance	305,895	305,895	295,513	10,382
Veterans service	110,475	110,475	105,427	5,048
Motor pool	-	-	31,378	(31,378)
Public transit	355,188	355,188	327,090	28,098
HUD recapture funds	-	-	7,247	(7,247)
Other general government	438,298	438,298	850,718	(412,420)
Total general government	\$ 3,052,890	\$ 3,070,201	\$ 3,428,817	\$ (358,616)

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**EXHIBIT 7
(Continued)**

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<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	\$ 1,211,087	\$ 1,211,087	\$ 1,163,576	\$ 47,511
Sheriff's contingent	5,000	5,000	-	5,000
Jail	478,222	478,222	443,743	34,479
E-911 and radio maintenance	-	-	465,908	(465,908)
County coroner	10,000	10,000	11,252	(1,252)
Court services	225,612	225,612	284,121	(58,509)
Emergency management	61,409	61,409	60,902	507
Total public safety	\$ 1,991,330	\$ 1,991,330	\$ 2,429,502	\$ (438,172)
Culture and recreation				
County parks	\$ 22,000	\$ 22,000	\$ 14,668	\$ 7,332
Historical society	33,900	33,900	33,900	-
County library	573,931	573,931	552,847	21,084
Library endowment	-	-	1,247	(1,247)
Total culture and recreation	\$ 629,831	\$ 629,831	\$ 602,662	\$ 27,169
Conservation of natural resources				
Environmental services	\$ 97,191	\$ 97,191	\$ 67,566	\$ 29,625
County extension	87,591	87,591	84,858	2,733
Agricultural society/fair grounds	43,000	43,000	37,746	5,254
Soil and water conservation	55,600	55,600	55,600	-
CWP project	31,341	31,341	13,894	17,447
Local water plan block grant	63,980	63,980	42,303	21,677
Total conservation of natural resources	\$ 378,703	\$ 378,703	\$ 301,967	\$ 76,736
Economic development				
Employment and training	\$ 45,670	\$ 45,670	\$ 56,590	\$ (10,920)
Economic development	64,000	64,000	61,200	2,800
Total economic development	\$ 109,670	\$ 109,670	\$ 117,790	\$ (8,120)

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

*EXHIBIT 7
(Continued)*

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (Continued)				
Capital outlay				
General government	\$ 27,000	\$ 27,000	\$ 4,836	\$ 22,164
Debt service				
Principal	\$ 102,582	\$ 102,582	\$ 106,004	\$ (3,422)
Interest	\$ 9,954	\$ 9,954	\$ 9,954	\$ -
Total Expenditures	\$ 6,301,960	\$ 6,319,271	\$ 7,001,532	\$ (682,261)
Excess of Revenues Over (Under)				
Expenditures	\$ (433,821)	\$ (451,132)	\$ (366,987)	\$ 84,145
Other Financing Sources (Uses)				
Transfers in	\$ 63,181	\$ 63,181	\$ 63,181	\$ -
Transfers out	(170,000)	(170,000)	(177,954)	(7,954)
Capital notes issued	200,000	200,000	200,000	-
Proceeds from loans	-	-	118,338	118,338
Total Other Financing Sources (Uses)	\$ 93,181	\$ 93,181	\$ 203,565	\$ 110,384
Net Change in Fund Balance	\$ (340,640)	\$ (357,951)	\$ (163,422)	\$ 194,529
Fund Balances - January 1, as restated (Note 1.E.)	5,608,996	5,608,996	5,608,996	-
Fund Balance - December 31	\$ 5,268,356	\$ 5,251,045	\$ 5,445,574	\$ 194,529

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 8

**BUDGETARY COMPARISON STATEMENT
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 915,586	\$ 915,586	\$ 915,745	\$ 159
Intergovernmental	3,997,616	3,997,616	4,859,325	861,709
Charges for services	275,000	275,000	347,100	72,100
Miscellaneous	160,000	160,000	226,653	66,653
Total Revenues	\$ 5,348,202	\$ 5,348,202	\$ 6,348,823	\$ 1,000,621
Expenditures				
Current				
Highways and streets				
Administration	\$ 473,996	\$ 473,996	\$ 432,025	\$ 41,971
Maintenance	1,456,052	1,456,052	1,719,751	(263,699)
Construction	2,184,079	2,184,079	2,483,082	(299,003)
Equipment maintenance and shop	1,045,075	1,045,075	1,025,422	19,653
Other	192,000	192,000	284,669	(92,669)
Total highways and streets	\$ 5,351,202	\$ 5,351,202	\$ 5,944,949	\$ (593,747)
Intergovernmental				
Highways and streets	175,000	175,000	183,176	(8,176)
Total Expenditures	\$ 5,526,202	\$ 5,526,202	\$ 6,128,125	\$ (601,923)
Excess of Revenues Over (Under) Expenditures	\$ (178,000)	\$ (178,000)	\$ 220,698	\$ 398,698
Other Financing Sources (Uses)				
Transfers in	178,000	178,000	175,475	(2,525)
Net Change in Fund Balance	\$ -	\$ -	\$ 396,173	\$ 396,173
Fund Balance - January 1	1,509,250	1,509,250	1,509,250	-
Increase (decrease) in inventories	-	-	105,572	105,572
Fund Balance - December 31	\$ 1,509,250	\$ 1,509,250	\$ 2,010,995	\$ 501,745

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 9

**BUDGETARY COMPARISON STATEMENT
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,815,175	\$ 1,815,175	\$ 1,817,223	\$ 2,048
Intergovernmental	2,287,839	2,287,839	2,598,866	311,027
Charges for services	355,864	355,864	407,986	52,122
Miscellaneous	175,050	175,050	255,201	80,151
Total Revenues	<u>\$ 4,633,928</u>	<u>\$ 4,633,928</u>	<u>\$ 5,079,276</u>	<u>\$ 445,348</u>
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,028,733	\$ 1,028,733	\$ 992,330	\$ 36,403
Social services	3,103,540	3,103,540	3,388,596	(285,056)
Total human services	<u>\$ 4,132,273</u>	<u>\$ 4,132,273</u>	<u>\$ 4,380,926</u>	<u>\$ (248,653)</u>
Health				
Community health services	512,973	512,973	471,529	41,444
Total Expenditures	<u>\$ 4,645,246</u>	<u>\$ 4,645,246</u>	<u>\$ 4,852,455</u>	<u>\$ (207,209)</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (11,318)</u>	<u>\$ (11,318)</u>	<u>\$ 226,821</u>	<u>\$ 238,139</u>
Other Financing Sources (Uses)				
Transfers out	-	-	(63,181)	(63,181)
Net Change in Fund Balance	<u>\$ (11,318)</u>	<u>\$ (11,318)</u>	<u>\$ 163,640</u>	<u>\$ 174,958</u>
Fund Balance - January 1	<u>2,087,589</u>	<u>2,087,589</u>	<u>2,087,589</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 2,076,271</u></u>	<u><u>\$ 2,076,271</u></u>	<u><u>\$ 2,251,229</u></u>	<u><u>\$ 174,958</u></u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 10

**BUDGETARY COMPARISON STATEMENT
COUNTY DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ -	\$ 30,000	\$ 25,633	\$ (4,367)
Expenditures				
Current				
Conservation of natural resources				
Other (ditch repairs)	-	30,000	99,700	(69,700)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (74,067)	\$ (74,067)
Other Financing Sources (Uses)				
Transfers in	-	-	2,479	2,479
Net Change in Fund Balance	\$ -	\$ -	\$ (71,588)	\$ (71,588)
Fund Balance - January 1	<u>162,123</u>	<u>162,123</u>	<u>162,123</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 162,123</u>	<u>\$ 162,123</u>	<u>\$ 90,535</u>	<u>\$ (71,588)</u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 11

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 11,619	\$ 11,619	\$ 11,618	\$ (1)
Special assessments	184,375	184,375	170,042	(14,333)
Intergovernmental	58,081	58,081	57,862	(219)
Miscellaneous	8,950	8,950	13,630	4,680
Total Revenues	\$ 263,025	\$ 263,025	\$ 253,152	\$ (9,873)
Expenditures				
Current				
Sanitation				
SCORE	266,850	266,850	273,119	(6,269)
Net Change in Fund Balance	\$ (3,825)	\$ (3,825)	\$ (19,967)	\$ (16,142)
Fund Balance - January 1	379,455	379,455	379,455	-
Fund Balance - December 31	\$ 375,630	\$ 375,630	\$ 359,488	\$ (16,142)

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FIDUCIARY FUNDS

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 12

**STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2011**

<u>Assets</u>	
Cash and pooled investments	<u>\$ 199,295</u>
<u>Liabilities</u>	
Accounts payable	\$ 24,470
Due to other governments	<u>174,825</u>
Total Liabilities	<u>\$ 199,295</u>

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011**

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, 2011. 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.

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 restricted revenues from the federal and state government, as well as assigned property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

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

The 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 Solid Waste Special Revenue Fund is used to account for the County recycling programs. Financing is provided by a tax levy, user charges (special assessments), and state grants.

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

Additionally, the County reports the following fund type:

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

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

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

D. Assets, Liabilities, 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, 2011, 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 2011 were \$99,084.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

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

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

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

Investments of the County are reported at fair value.

2. Receivables and Payables

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

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

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

3. Inventories

The Road and Bridge Special Revenue Fund inventory is valued using the weighted average method. Inventories in governmental funds are recorded as expenditures at the time the item is purchased. Inventories at the county-wide level are reported as expenses when consumed. Inventories, as reported in the fund financial statements, are equally offset by nonspendable fund balance, which indicates that they do not constitute available spendable resources.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Capital Assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

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

5. Compensated Absences

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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.

7. Long-Term Obligations

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

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

8. Classification of Net Assets

Net assets in the county-wide financial statements are classified in the following categories:

Invested in capital assets, net of related debt - the amount of net assets representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

8. Classification of Net Assets (Continued)

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

Unrestricted net assets - the amount of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

9. Classification of Fund Balances

Beginning in 2011, Watonwan County implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and to clarify existing governmental fund type definitions.

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

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

Nonspendable - the nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form or are legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

Restricted - fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

9. Classification of Fund Balances (Continued)

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

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

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

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Use of Estimates

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

E. Restatement of Fund Balance

The implementation of GASB Statement 54 required the County to report the Library Special Revenue Fund as part of the General Fund. The Library Special Revenue Fund was previously reported as a nonmajor special revenue fund as was the Solid Waste Special Revenue Fund. In addition to this restatement, the Solid Waste Special Revenue Fund is being presented as a major special revenue fund in 2011. The following table summarizes the restatement.

	General Fund	Library Special Revenue Fund
Fund Balance - January 1, as previously reported	\$ 5,074,588	\$ 534,408
Restatement	534,408	(534,408)
Fund Balance - January 1, as restated	\$ 5,608,996	\$ -

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

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

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

2. Stewardship, Compliance, and Accountability

A. Budgetary Information (Continued)

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.

B. Excess of Expenditures Over Budget

The funds shown below had expenditures in excess of budget for the year ended December 31, 2011.

	Expenditures	Budget	Excess
General Fund	\$ 7,001,532	\$ 6,319,271	\$ 682,261
Road and Bridge Special Revenue Fund	6,128,125	5,526,202	601,923
Human Services Special Revenue Fund	4,852,455	4,645,246	207,209
County Ditch Special Revenue Fund	99,700	30,000	69,700
Solid Waste Special Revenue Fund	273,119	266,850	6,269

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

C. Deficit Fund Equity

For internal accounting purposes, individual ditch system records are maintained on a basis which shows long-term debt payable, recognizes special assessments as revenues when levied, and does not eliminate interfund transactions. Using this basis of accounting, 1 of 38 drainage systems had a deficit fund balance at December 31, 2011.

Although this method results in numbers not considered to be in conformity with GAAP for reporting, it provides necessary information by ditch for internal accounting purposes. The following is a summary of fund balances using this non-GAAP basis.

Account balances	\$ 252,180
Account balance deficit	(73,410)
Total	\$ 178,770

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

2. Stewardship, Compliance, and Accountability

C. Deficit Fund Equity (Continued)

The Ditch Special Revenue Fund’s deficit will be eliminated with future special assessment levies against benefited properties. The Ditch Special Revenue Fund had a fund balance of \$90,535 when reported on the modified accrual basis.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Governmental funds	
Cash and pooled investments	\$ 10,398,104
Fiduciary funds	
Cash and pooled investments	
Agency funds	<u>199,295</u>
Total Cash and Investments	<u>\$ 10,597,399</u>

a. Deposits

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

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. It is 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, 2011, the County's deposits were not exposed to custodial credit risk.

b. Investments

Interest Rate Risk

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

Credit Risk

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

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

At December 31, 2011, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's policy to minimize concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimal. As of December 31, 2011, all of the County's investment carrying value balance of \$602,789 was invested in the MAGIC Fund.

2. Receivables

Receivables as of December 31, 2011, for the County are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Taxes - prior	\$ 159,919	\$ -
Special assessments - prior	29,602	-
Special assessments - noncurrent	546,458	360,964
Accounts	288,044	-
Accrued interest	15,604	-
Due from other governments	1,760,727	150,000
Total	\$ 2,800,354	\$ 510,964

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 695,771	\$ -	\$ -	\$ 695,771
Construction in progress	<u>35,840</u>	<u>20,467</u>	<u>8,693</u>	<u>47,614</u>
Total capital assets not depreciated	<u>\$ 731,611</u>	<u>\$ 20,467</u>	<u>\$ 8,693</u>	<u>\$ 743,385</u>
Capital assets depreciated				
Buildings	\$ 7,889,289	\$ -	\$ -	\$ 7,889,289
Land improvements	49,128	-	-	49,128
Machinery, furniture, and equipment	5,591,101	559,999	43,695	6,107,405
Infrastructure	<u>48,205,351</u>	<u>3,871,265</u>	<u>-</u>	<u>52,076,616</u>
Total capital assets depreciated	<u>\$ 61,734,869</u>	<u>\$ 4,431,264</u>	<u>\$ 43,695</u>	<u>\$ 66,122,438</u>
Less: accumulated depreciation for				
Buildings	\$ 2,623,840	\$ 178,623	\$ -	\$ 2,802,463
Land improvements	22,089	2,456	-	24,545
Machinery, furniture, and equipment	4,190,160	310,855	43,695	4,457,320
Infrastructure	<u>13,942,772</u>	<u>1,013,344</u>	<u>-</u>	<u>14,956,116</u>
Total accumulated depreciation	<u>\$ 20,778,861</u>	<u>\$ 1,505,278</u>	<u>\$ 43,695</u>	<u>\$ 22,240,444</u>
Total capital assets depreciated, net	<u>\$ 40,956,008</u>	<u>\$ 2,925,986</u>	<u>\$ -</u>	<u>\$ 43,881,994</u>
Total Capital Assets, Net	<u>\$ 41,687,619</u>	<u>\$ 2,946,453</u>	<u>\$ 8,693</u>	<u>\$ 44,625,379</u>

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

General government	\$ 219,856
Public safety	58,305
Highways and streets, including depreciation of infrastructure assets	1,178,913
Human services	45,816
Culture and recreation	1,325
Conservation of natural resources	<u>1,063</u>
Total Depreciation Expense	<u>\$ 1,505,278</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, 2011, is as follows:

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Human Services	\$ 31,509	Reimbursement for services
Road and Bridge	General	\$ 188,381	Reimbursement for services and truck purchase
	Human Services	95	Reimbursement for services
	County Ditch	2,920	Reimbursement for services
	Solid Waste	19	Reimbursement for services
Total due to Road and Bridge Fund		<u>\$ 191,415</u>	
Total Due To/From Other Funds		<u>\$ 222,924</u>	

The interfund receivables and payables are expected to be paid within one year of December 31, 2011.

2. Interfund Transfers

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>	<u>Purpose</u>
General	Road and Bridge	\$ 175,475	Allocated interest and truck purchase
	County Ditch	<u>2,479</u>	Allocated interest
Total transfers out of General Fund		\$ 177,954	
Human Services	General	<u>63,181</u>	2011 rent
Total Transfers In/Out		<u>\$ 241,135</u>	

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Other Postemployment Benefits (OPEB)

Watowan County provides postemployment health care benefits for retirees and elected officials. Within 60 days of the effective date of an elected County official's retirement or termination, the County shall contribute an amount equal to the annual premium for single health insurance coverage in effect at the time of termination or retirement for every four complete years of service, up to a maximum of five terms. As of December 31, 2011, the County recorded a liability of \$130,914 for the elected officials' termination benefits.

The County also provides health insurance benefits for eligible retired employees and their spouses under a single-employer self-insured plan. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b. Retirees are required to pay 100 percent of the total premium cost. Since the premium is determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. This postemployment benefit is funded on a pay-as-you-go basis, usually paying retiree benefits out of the General Fund. For 2011, there were approximately 140 participants in the plan, including 2 retirees and no spouses. The implicit rate subsidy amount was determined by an actuarial study to be \$8,636 for 2011.

Annual OPEB Cost and Net OPEB Obligation

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

1. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

ARC	\$	65,630
Interest on net OPEB obligation		5,098
Adjustment to ARC		(7,028)
		(7,028)
Annual OPEB cost (expense)	\$	63,700
Contributions made		(8,636)
		(8,636)
Increase in net OPEB obligation	\$	55,064
Net OPEB obligation - January 1		113,292
		113,292
Net OPEB obligation - December 31	\$	168,356

The County's annual OPEB cost, the percentage of annual OPEB contributed to the plan, and the net OPEB obligation for the years ended December 31, 2009, 2010, and 2011, were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contributions</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligations</u>
December 31, 2009	\$ 56,516	\$ 20,252	35.8%	\$ 78,799
December 31, 2010	56,017	21,524	38.4	113,292
December 31, 2011	63,700	8,636	13.6	168,356

Funded Status and Funding Progress

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

1. Other Postemployment Benefits (OPEB)

Funded Status and Funding Progress (Continued)

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

Actuarial Methods and Assumptions

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

In the January 1, 2011, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of investment expenses), which is Watonwan County's implicit rate of return on the General Fund. The annual health care cost trend is 8.5 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 7 years. Both rates included a 3.0 percent inflation assumption. The UAAL is being amortized over 30 years as a level dollar on a closed basis. The remaining amortization period at December 31, 2011, was 30 years.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Long-Term Debt

Bonds

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amount</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2011</u>
G.O. Capital Improvement Bonds, Series 2005A	2026	\$35,000 - \$60,000	3.70 - 4.40	\$ 845,000	\$ 685,000
G.O. Capital Improvement Refunding Bonds, Series 2010A	2021	\$150,000 - \$180,000	1.00 - 3.00	1,650,000	1,650,000
G.O. Capital Notes, Series 2011	2016	\$40,000	1.95	<u>200,000</u>	<u>200,000</u>
Total				<u>\$ 2,695,000</u>	\$ 2,535,000
Less: unamortized discount					<u>(27,670)</u>
Total General Obligation Bonds, Net					<u>\$ 2,507,330</u>

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

Loans Payable

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Long-Term Debt

Loans Payable (Continued)

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amount</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2011</u>
Watonwan Watershed Clean Water Partnership Project, SRF0047	2014	\$22,853	2.00	\$ 485,926	\$ 110,916
Watonwan Watershed Continuation Clean Water Partnership Project, SRF0108	2017	\$28,212	2.00	541,173	317,532
Greater Blue Earth and Des Moines River Clean Water Partnership Project, SRF0221	2023	\$17,290	2.00	157,835	157,835
Watonwan Ag Best Management Loan Program	2021	\$633 - \$6,253	-	114,047	80,590
Total Loans				<u>\$ 1,298,981</u>	<u>\$ 666,873</u>

3. Debt Service Requirements

Debt service requirements at December 31, 2011, were as follows:

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>		<u>Capital Notes</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 185,000	\$ 58,855	\$ 40,000	\$ 3,911
2013	185,000	56,060	40,000	3,120
2014	195,000	53,083	40,000	2,340
2015	200,000	49,663	40,000	1,560
2016	200,000	45,662	40,000	782
2017 - 2021	1,095,000	145,040	-	-
2022 - 2026	275,000	31,037	-	-
Total	<u>\$ 2,335,000</u>	<u>\$ 439,400</u>	<u>\$ 200,000</u>	<u>\$ 11,713</u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Debt Service Requirements (Continued)

Year Ending December 31	Loans Payable*	
	Principal	Interest
2012	\$ 106,158	\$ 8,101
2013	106,187	6,211
2014	85,571	4,283
2015	64,313	3,005
2016	65,717	1,931
2017 - 2021	81,092	835
Total	\$ 509,038	\$ 24,366

*The debt service requirements for the loan from the Minnesota Pollution Control Agency in the amount of \$157,835 are not known as of December 31, 2011.

Current Debt Refunding

On November 1, 2010, the County issued \$1,650,000 of G.O. Capital Improvement Refunding Bonds with an average interest rate of 2.27 percent to advance refund the G.O. Capital Improvement Refunding Bonds of 2004 with an average interest rate of 4.08 percent. The net proceeds of \$1,610,000 were used to pay the refunded bonds on their call date of February 1, 2011.

The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$36,368. This difference, reported in the statement of net assets as a deduction from bonds payable, is being charged to operations through 2021 using the straight-line method. The County completed the refunding to reduce its total debt service payments over the next ten years by \$143,818 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$123,930.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
G.O. Capital Improvement Refunding Bonds, Series 2004A	\$ 1,740,000	\$ -	\$ 1,740,000	\$ -	\$ -
G.O. Capital Improvement Bonds, Series 2005A	720,000	-	35,000	685,000	35,000
G.O. Capital Improvement Refunding Bonds, Series 2010A	1,650,000	-	-	1,650,000	150,000
G.O. Capital Notes, Series 2011	-	200,000	-	200,000	40,000
Less: unamortized discount on bonds	(30,457)	-	(2,787)	(27,670)	-
Total bonds payable	\$ 4,079,543	\$ 200,000	\$ 1,772,213	\$ 2,507,330	\$ 225,000
Loans payable	654,539	118,338	106,004	666,873	106,158
Net OPEB liabilities	113,292	63,700	8,636	168,356	-
Compensated absences	849,163	-	12,133	837,030	482,011
Total Long-Term Liabilities	<u>\$ 5,696,537</u>	<u>\$ 382,038</u>	<u>\$ 1,898,986</u>	<u>\$ 4,179,589</u>	<u>\$ 813,169</u>

D. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

D. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$450,000 per claim in 2011 and \$460,000 per claim in 2012. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

4. Pension Plans

A. Defined Benefit Plans

Plan Description

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

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute. Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2011:

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

The County's contributions for the years ending December 31, 2011, 2010, and 2009, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
General Employees Retirement Fund	\$ 346,562	\$ 286,527	\$ 322,851
Public Employees Police and Fire Fund	65,525	41,261	59,820
Public Employees Correctional Fund	20,121	13,162	20,043

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

B. Defined Contribution Plan

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Pension Plans

B. Defined Contribution Plan (Continued)

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

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2011, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 4,324	\$ 4,324
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

5. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

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

B. Joint Ventures

Red Rock Rural Water System

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

The 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 governmental activities indebtedness at December 31, 2010 (the most current information available), amounted to \$13,363,000, and business-type indebtedness was \$241,629. The Water System's net assets decreased by \$130,751 in 2010.

Complete financial information can be obtained from the Red Rock Rural Water System, 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; River Bend Education District; and Sioux Trails Mental Health Center. The purpose of the Collaborative is to join local units of government together to ensure a unified, unduplicated, and family-friendly system of intervention and care for families and children. The Collaborative provides improved coordination for children and families through information sharing, elimination of duplicate services, and cooperative efforts. The Collaborative funds selected projects and services that support intervention and the prevention of out-of-home placement of children at risk.

Control of the Collaborative is vested in a Board of Directors consisting of seven members. Brown County Family Services acts as fiscal agent for the Collaborative. The Collaborative is financed by Local Collaborative Time Study (LCTS) funds. During 2011, Watonwan County made \$19,968 in contributions to the Collaborative.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Three Counties for Kids Collaborative (Continued)

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

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

Vision for Family and Community Collaborative

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

Control of the Collaborative is vested in a Joint Powers Board. The Joint Powers Board is composed of nine members. Watonwan County Human Services acts as fiscal agent for the Collaborative. The Collaborative is financed by LCTS funds. During 2011, 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.

C. Jointly-Governed Organizations

The Greater Blue Earth River Basin Alliance (GBERBA) establishes goals, policies, and objectives to protect and enhance land and water resources in the Greater Blue Earth River Basin. During the year, the County made \$5,343 in contributions to the GBERBA.

The Minnesota Counties Computer Cooperative provides computer programming services for the County. During the year, the County purchased \$66,562 of services.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

The Rural Minnesota Energy Board was established in 2005 under the authority of Minn. Stat. § 471.59. 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. During 2011, Watonwan County paid \$2,500 to the Board.

The South Central Community Based Initiative was formed with nine other counties to provide mental health services to residents. Contributions to the group are made by the Human Services Board. The County made no payments to the Community Based Initiative in 2011.

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 South Central Minnesota Regional Radio Board was established pursuant to Minn. Stat. §§ 471.59 and 403.39 and a joint powers agreement effective May 27, 2008. The primary function of the joint venture is to provide regional administration of enhancements to the Statewide Public Safety Radio and Communication System for the Allied Radio Matrix for Emergency Response (ARMER), owned and operated by the State of Minnesota, and to enhance and improve interoperable public safety communications.

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

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

The Three Rivers Resource Conservation & Development (RC&D) is a locally initiated, sponsored, and directed organization that works to enhance the quality of life by improving the economic, social, and environmental conditions within the area. During the year, the County paid \$650 to the RC&D.

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 2011.

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 2011 is \$84,674. The proportionate share of the counties may change for years 2012 through 2024 if there are changes in the taxable market value over the 2001 taxable market value; however, the County's share may not increase by the lesser of two percent or the increase over the 2001 taxable market value.

F. Subsequent Event

On June 1, 2012, the County issued \$625,000 of G.O. Capital Improvement Plan Crossover Refunding Bonds with an average interest rate of 2.16 percent to crossover refund the G.O. Capital Improvement Bonds of 2005 with an average interest rate of 4.30 percent. The net proceeds of \$600,000 will be used to pay the refunded bonds on their call date of February 1, 2014. The crossover refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$40,040.

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REQUIRED SUPPLEMENTARY INFORMATION

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT A-1

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2011**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c)
January 1, 2008	\$ -	\$ 483,308	\$ 483,308	0.0%	\$ 5,006,800	9.7%
January 1, 2011	-	445,548	445,548	0.0%	5,302,315	8.4%

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

Complete multi-year trend information is not available at this time, as Governmental Accounting Standards Board Statement 45 was implemented in 2008. Future notes will provide additional trend analysis to meet the three actuarial valuations requirement as the information becomes available.

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SUPPLEMENTARY INFORMATION

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

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT B-1

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 256,876	\$ 256,876	\$ 256,948	\$ 72
Intergovernmental	41,487	41,487	34,657	(6,830)
Total Revenues	\$ 298,363	\$ 298,363	\$ 291,605	\$ (6,758)
Expenditures				
Debt service				
Principal	\$ 193,575	\$ 1,775,575	\$ 1,775,000	\$ 575
Interest	103,788	103,788	88,135	15,653
Administrative charges	1,000	1,000	425	575
Total Expenditures	\$ 298,363	\$ 1,880,363	\$ 1,863,560	\$ 16,803
Net Change in Fund Balance	\$ -	\$ (1,582,000)	\$ (1,571,955)	\$ 10,045
Fund Balance - January 1	1,873,082	1,873,082	1,873,082	-
Fund Balance - December 31	\$ 1,873,082	\$ 291,082	\$ 301,127	\$ 10,045

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

AGENCY FUNDS

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

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

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

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

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Balance January 1	Additions	Deductions	Balance December 31
<u>AGENCY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 18,187	\$ 1,700,479	\$ 1,703,814	\$ 14,852
<u>Liabilities</u>				
Due to other governments	\$ 18,187	\$ 1,700,479	\$ 1,703,814	\$ 14,852
 <u>VISION FOR FAMILY AND COMMUNITY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 8,604	\$ 169,396	\$ 176,413	\$ 1,587
<u>Liabilities</u>				
Due to other governments	\$ 8,604	\$ 169,396	\$ 176,413	\$ 1,587
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 199,848	\$ 13,386,760	\$ 13,428,222	\$ 158,386
<u>Liabilities</u>				
Due to other governments	\$ 199,848	\$ 13,386,760	\$ 13,428,222	\$ 158,386

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Balance January 1	Additions	Deductions	Balance December 31
<u>CEMETERY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 24,470	\$ 256	\$ 256	\$ 24,470
	\$ 24,470	\$ 256	\$ 256	\$ 24,470
<u>Liabilities</u>				
Accounts payable	\$ 24,470	\$ 256	\$ 256	\$ 24,470
	\$ 24,470	\$ 256	\$ 256	\$ 24,470
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 251,109	\$ 15,256,891	\$ 15,308,705	\$ 199,295
	\$ 251,109	\$ 15,256,891	\$ 15,308,705	\$ 199,295
<u>Liabilities</u>				
Accounts payable	\$ 24,470	\$ 256	\$ 256	\$ 24,470
Due to other governments	226,639	15,256,635	15,308,449	174,825
	\$ 251,109	\$ 15,256,891	\$ 15,308,705	\$ 199,295
Total Liabilities	\$ 251,109	\$ 15,256,891	\$ 15,308,705	\$ 199,295

OTHER SCHEDULES

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2011**

Shared Revenue

State

Highway users tax	\$ 2,827,638
PERA rate reimbursement	19,906
Disparity reduction aid	5,064
Police aid	51,000
County program aid	627,502
Market value credit	425,557
Enhanced 911	84,813

Total shared revenue **\$ 4,041,480**

Reimbursement for Services

State

Minnesota Department of Human Services	<u>\$ 505,123</u>
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Payments

Local

Local contributions	<u>\$ 18,451</u>
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Grants

State

Minnesota Department/Board of	
Public Safety	\$ 57,909
Health	64,446
Natural Resources	5,275
Human Services	697,180
Corrections	20,694
Transportation	306,409
Water and Soil Resources	49,201
Education	20,872
Pollution Control Agency	55,950
Peace Officer Standards and Training Board	2,651

Total state **\$ 1,280,587**

Federal

Department of	
Agriculture	\$ 297,736
Housing and Urban Development	164,332
Transportation	1,806,524
Health and Human Services	887,609
Homeland Security	39,604

Total federal **\$ 3,195,805**

Total state and federal grants **\$ 4,476,392**

Total Intergovernmental Revenue **\$ 9,041,446**

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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	\$ 91,625
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP)	10.561	105,978
Passed Through City of Saint James Rural Business Enterprise Grants - ARRA	10.783	<u>99,999</u>
Total U.S. Department of Agriculture		<u>\$ 297,602</u>
U.S. Department of Housing and Urban Development		
Passed Through Minnesota Department of Employment and Economic Development Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	<u>\$ 176,463</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 1,702,626
Formula Grants for Other Than Urbanized Areas	20.509	100,307
Passed Through Minnesota Department of Public Safety Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	<u>3,591</u>
Total U.S. Department of Transportation		<u>\$ 1,806,524</u>
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Health Public Health Emergency Preparedness	93.069	\$ 17,583
Temporary Assistance for Needy Families	93.558	21,177
Immunization - ARRA	93.712	6,420
Maternal and Child Health Services Block Grant to the States	93.994	18,353

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services (Continued)		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	1,781
Temporary Assistance for Needy Families	93.558	95,957
Child Support Enforcement	93.563	197,173
Child Care Development Cluster		
Child Care and Development Block Grant	93.575	2,194
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	1,849
Foster Care - Title IV-E	93.658	84,464
Social Services Block Grant	93.667	90,702
Chafee Foster Care Independence Program	93.674	19,985
Children's Health Insurance Program	93.767	71
Medical Assistance Program	93.778	328,520
		<hr/>
Total U.S. Department of Health and Human Services		\$ 886,229
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	\$ 21,297
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	10,157
Passed Through Blue Earth County		
Interoperable Emergency Communications	97.055	2,231
Homeland Security Grant Program	97.067	5,919
		<hr/>
Total U.S. Department of Homeland Security		\$ 39,604
		<hr/>
Total Federal Awards		\$ 3,206,422

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Watonwan County under programs of the federal government for the year ended December 31, 2011. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Watonwan County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Watonwan County.

3. Summary of Significant Accounting Policies

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

4. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Child Care and Development Cluster	\$ 4,043
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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 3,195,805
Funds reported as miscellaneous revenues in 2010	
Community Development Block Grants	12,131
Grants received more than 60 days after year-end, deferred in 2010	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	(134)
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	(415)
Foster Care - Title IV-E	(965)
	<hr/>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 3,206,422</u>

6. Subrecipients

During 2011, the County did not pass any federal money to subrecipients.

7. American Recovery and Reinvestment Act

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

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

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

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

The major program is:

Highway Planning and Construction

CFDA #20.205

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS RESOLVED

Audit Adjustments (06-2)

Management and employees, in the normal course of performing their assigned functions, were not able to prevent, or detect and correct, misstatements of the financial statements on a timely basis.

Resolution

There were no material and significant audit adjustments required in our audit of the County's financial statements.

Preparation of the Schedule of Expenditures of Federal Awards (10-1)

The County did not have a process in place to adequately identify federal programs.

Resolution

The County prepared the Schedule of Expenditures of Federal Awards.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

09-1 Ditch Fund Deficit Cash Balances

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

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

Condition: The County had individual ditch systems with deficit cash balances and a deficit fund balance at December 31, 2011.

Context: At December 31, 2011, four ditch systems had negative cash balances totaling \$126,856, and one ditch had a deficit fund balance of \$73,410.

Effect: The County is not in compliance with Minnesota statutes by having ditch systems with negative cash balances. Individual ditch systems are, in effect, receiving an interest-free loan from the General Fund. Ditch systems with negative fund balances indicate that measures have not been taken to ensure that an individual ditch system can meet financial obligations.

Cause: Ditch expenditures were necessary, and the ditch cash balance and levies were not sufficient to cover all costs. A significant portion of the deficit balances is caused by County Ditch #62, which is currently in litigation, pending an appeal of an earlier court ruling.

Recommendation: As soon as the litigation process is completed, we recommend that the County eliminate the cash deficits by borrowing from eligible funds with surplus cash balances under Minn. Stat. § 103E.655. Individual fund balance deficits may be eliminated by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1, which permits the accumulation of a surplus cash balance to provide for the repair and maintenance of the ditch systems.

Client's Response:

In response to 2011 audit findings concerning negative ditch balances, the County would like to provide these insights:

The \$73,410 deficit fund balance represents the amount of funds expended on an improvement petition which the ditch authority has found to not meet the criteria for establishment of the improvement. Some of the petitioners have chosen to appeal the authority's decision. The District Court upheld the ditch authority's findings, and the petitioners have now chosen to pursue relief from the Court of Appeals. The process is long and drawn out; however, if the Court of Appeals finds in favor of the ditch authority, those funds will be immediately collected.

CD #62 deficit cash balance of \$84,824 is related to the deficit fund balance noted above. JD #1, deficit cash balance of \$1,717; JD #35 SE, deficit cash balance of \$32,266; and CD #1 deficit cash balance of \$7,949 are deficits due to repair charges which have been levied for in 2012. The County maintains cash balances in the individual systems; however, there are times when the repairs can be quite extensive or a joint system incurs costs from another county that we have not been aware of. It is difficult to foresee or maintain a cash balance significant enough to offset the costs that were incurred on JD #35 SE. Taxpayers question when we maintain a large cash balance. We do try to maintain adequate balances for maintenance costs.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

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

Board of County Commissioners
Watowan County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Watowan County as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 17, 2012. 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

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

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

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

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

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

Watonwan County's written response to the legal compliance finding identified in our audit has been included in the Schedule of Findings and Questioned Costs. We did not audit the County's response and, accordingly, we express no opinion on it.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 17, 2012

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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

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

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners
Watonwan County

Compliance

We have audited Watonwan County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2011. Watonwan County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program 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 of the County's compliance with those requirements.

In our opinion, Watonwan County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2011.

Internal Control Over Compliance

Management of Watonwan County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

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

September 17, 2012