

# STATE OF MINNESOTA

## Office of the State Auditor



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

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

**YEAR ENDED DECEMBER 31, 2012**

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

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

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

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

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

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

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

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

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

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

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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**Year Ended December 31, 2012**



**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  
2012**

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
<b>Commissioners</b>		
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
<b>Officers</b>		
<b>Elected</b>		
Attorney	Stephen Lindee	January 2015
Auditor	Donald Kuhlman	January 2015
Recorder	Joy Sing	January 2015
Sheriff	Gary Menssen	January 2015
Treasurer	Carol F. Johnson	January 2015
<b>Appointed</b>		
Assessor	Mike Wacker	January 2013
Court Administrator (State)	Kelly Iverson	Indefinite
Coroner	Dr. Lindy Eatwell	January 2015
Highway Engineer	Roger Risser	May 2015
Probation Officer	Paul Harris	Indefinite
Veterans Service Officer	Deb Grote	Indefinite
Human Services Director	Richard Collins	Indefinite

\*2012 Chair

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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## INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Watonwan County

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Watonwan County, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Watonwan County as of December 31, 2012, and the respective changes in financial position thereof and the respective budgetary comparisons for the General Fund, Road and Bridge Special Revenue Fund, and Human Services Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Supplementary Information***

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

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2013, on our consideration of Watonwan County’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Watonwan County’s internal control over financial reporting and compliance.

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

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

*/s/Rebecca Otto*

*/s/Greg Hierlinger*

REBECCA OTTO  
STATE AUDITOR

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 10, 2013

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

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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2012  
(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, 2012. 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 2012 by \$53,660,926. Of this amount, \$8,295,306 (unrestricted net position) may be used to meet Watonwan County's ongoing obligations to citizens and creditors.
- Watonwan County's total net position increased by \$681,912 in 2012.
- At the close of 2012, Watonwan County's governmental funds reported combined ending fund balances of \$10,695,203, of which \$4,100,463 is unassigned and is available for spending at the County's discretion.
- At the close of 2012, unassigned fund balance for the General Fund was \$4,259,557, or 69.2 percent, of total General Fund expenditures.
- Watonwan County's total bonds and capital notes payable increased by \$400,000. There were payments of \$35,000, \$150,000, and \$40,000 on the G.O. Capital Improvement Bonds, Series 2005A; the G.O. Capital Improvement Refunding Bonds, Series 2010A; and the G.O. Capital Notes, Series 2011, respectively. In June, the County issued \$625,000 of G.O. Capital Improvement Plan Crossover Refunding Bonds, Series 2012A. The proceeds will be used to retire the G.O. Capital Improvement Bonds, Series 2005A, in 2014.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

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

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

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

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

### **Fund Financial Statements**

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

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

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

Watsonwan County reports four major funds and three nonmajor funds. The major funds are the General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, and the Debt Service Fund. The nonmajor funds are the County Library Special Revenue Fund, County Ditch Special Revenue Fund, and the Solid Waste Special Revenue Fund. Information is presented separately for the major funds and in total for the nonmajor funds on Exhibits 3 and 5.

Fiduciary funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments, or other funds. Watsonwan 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.

Watsonwan County's governmental fund financial statements are on Exhibits 3 to 9, and Watsonwan County's fiduciary funds are on Exhibit 10.

### **Notes to the Financial Statements**

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

### **Other Information**

In addition to the basic financial statements and notes, this report also presents certain required supplementary information concerning Watsonwan County's progress in funding its obligation to provide other postemployment benefits to its employees (Exhibit A-1). In addition, the County also provides supplementary information on intergovernmental revenue and expenditures of federal awards (Exhibits E-1 and E-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 position serves as a useful indicator of the County's financial position. Watowan County's assets exceeded liabilities by \$53,660,926 at the close of 2012. The largest portion of Watowan County's net position (80.7 percent) reflects its investment in capital assets (for example, land, buildings, and equipment), less any related debt used to acquire those assets that are still outstanding. However, it should be noted that these assets are not available for future spending.

#### Governmental Net Position

	<u>2011</u>	<u>2012</u>
Current and other assets	\$ 13,517,209	\$ 13,715,414
Capital assets	<u>44,625,379</u>	<u>45,573,860</u>
Total Assets	<u>\$ 58,142,588</u>	<u>\$ 59,289,274</u>
Long-term liabilities outstanding	\$ 4,179,589	\$ 4,600,931
Other liabilities	<u>983,985</u>	<u>1,027,417</u>
Total Liabilities	<u>\$ 5,163,574</u>	<u>\$ 5,628,348</u>
Net Position		
Net investment in capital assets	\$ 42,008,962	\$ 43,288,736
Restricted	1,975,608	2,076,884
Unrestricted	<u>8,994,444</u>	<u>8,295,306</u>
Total Net Position	<u>\$ 52,979,014</u>	<u>\$ 53,660,926</u>

The unrestricted net position amount of \$8,295,306 as of December 31, 2012, may be used to meet the County's ongoing obligations to citizens and creditors.

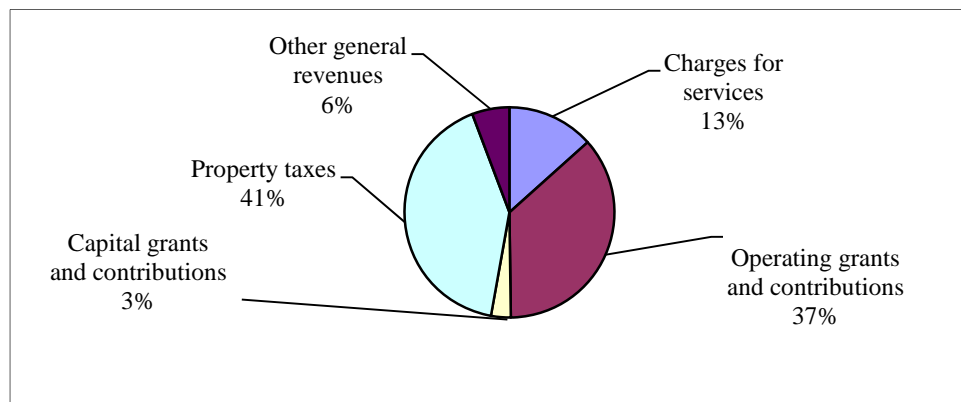
## Governmental Activities

The following table summarizes the changes in net position for 2012.

### Changes in Governmental Net Position

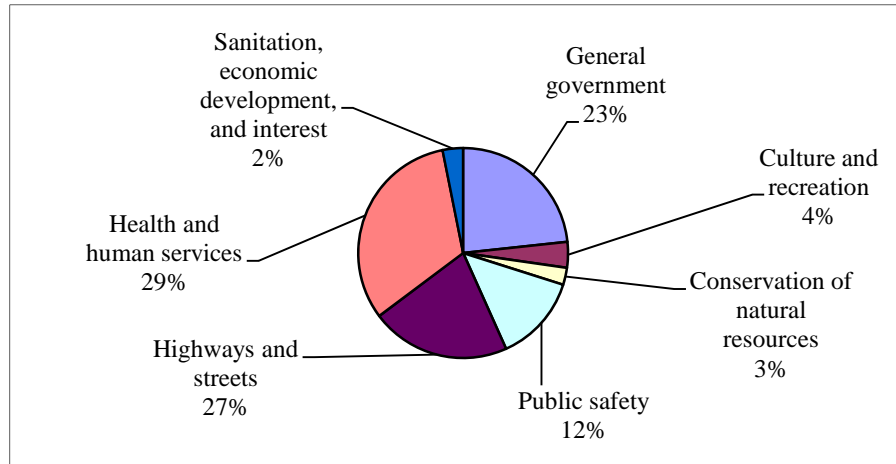
	<u>2011</u>	<u>2012</u>
<b>Revenues</b>		
Program revenues		
Charges for services	\$ 2,502,355	\$ 2,330,762
Operating grants and contributions	6,357,320	6,469,984
Capital grants and contributions	1,912,743	527,593
General revenues		
Property taxes	6,800,171	7,221,649
Other	1,345,808	1,001,895
<b>Total Revenues</b>	<b><u>\$ 18,918,397</u></b>	<b><u>\$ 17,551,883</u></b>
<b>Expenses</b>		
General government	\$ 3,539,954	\$ 3,765,321
Public safety	2,034,811	2,018,682
Highways and streets	3,266,073	4,615,620
Sanitation	273,119	219,863
Human services	4,403,569	4,497,194
Health	473,275	478,091
Culture and recreation	603,364	642,158
Conservation of natural resources	401,176	437,482
Economic development	117,679	108,918
Interest	87,694	86,642
<b>Total Expenses</b>	<b><u>\$ 15,200,714</u></b>	<b><u>\$ 16,869,971</u></b>
<b>Increase in Net Position</b>	<b>\$ 3,717,683</b>	<b>\$ 681,912</b>
<b>Net Position - January 1</b>	<b><u>49,261,331</u></b>	<b><u>52,979,014</u></b>
<b>Net Position - December 31</b>	<b><u>\$ 52,979,014</u></b>	<b><u>\$ 53,660,926</u></b>

### 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 \$10,695,203. Of this amount, \$4,100,463 constitutes unassigned fund balance. The remainder of fund balance is nonspendable, restricted, committed, or assigned to indicate that it is not available for new spending.

The General Fund is the chief operating fund of Watonwan County. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$4,259,557, while the total fund balance was \$4,849,810. 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 69.2 percent of total General Fund expenditures for 2012, while total fund balance represents 78.8 percent of total General Fund expenditures. In 2012, the total fund balance in the General Fund decreased by \$14,822, with unassigned fund balances decreasing by \$554,160 and restricted fund balances decreasing by \$41,604. The primary reason for the decrease in unassigned fund balance was due to a change in reporting the County Library Special Revenue Fund as part of the General Fund in 2011, to reporting the County Library Special Revenue Fund as a nonmajor fund in 2012. The primary reasons for the decrease in restricted fund balance were the increase in the restricted fund balance for receipts related to the ISTS loans and the decrease in the restricted fund balance for library donations due to the change in reporting previously mentioned.



The Road and Bridge Special Revenue Fund's fund balance decreased by \$330,482 in 2012. The main reasons for the decrease were the intergovernmental revenue and equipment expenditures variances from budget.

In 2012, the Human Services Special Revenue Fund's fund balance increased by \$63,194.

### General Fund Budgetary Highlights

The largest revenue variances were in intergovernmental and miscellaneous revenue. The intergovernmental revenue variance was due to unbudgeted state and federal grants received, and the miscellaneous revenue variance was due to a dividend from workers' compensation and property/casualty insurance and motor pool reimbursements, both of which were unbudgeted. On the expenditure side, actual expenditures were \$141,007 more than budgeted. The significant variance over budget was Other General Government costs (\$380,687) due to legal and professional costs of litigation and unbudgeted grant expenditures. E911 Radio and Maintenance costs were significantly under budget (\$215,521).

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2012, amounts to \$45,573,860 (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 \$948,481, of which a net increase in investment in infrastructure accounted for \$796,663 of that amount.

#### Governmental Capital Assets (Net of Depreciation)

	2011	2012
Land	\$ 695,771	\$ 686,771
Construction in progress	47,614	237,790
Land improvements	24,583	22,126
Buildings and improvements	5,086,826	4,934,500
Machinery, furniture, and equipment	1,650,085	1,775,510
Infrastructure	37,120,500	37,917,163
Total	\$ 44,625,379	\$ 45,573,860

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 \$2,913,882, which is backed by the full faith and credit of the government.

### Governmental Outstanding Debt

	<u>2011</u>	<u>2012</u>
General obligation bonds	<u>\$ 2,507,330</u>	<u>\$ 2,913,882</u>

Watonwan County's bond rating is "A1" from Moody's.

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 2012, 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 5.5 percent as of the end of 2012. This is slightly higher than the state-wide rate of 5.4 percent.
- Farm land values continued to increase in 2012, reflecting the profitability in crop farming at this time. Home values remained constant.

At the end of 2012, Watonwan County set its 2013 revenue and expenditure budgets, budgeting revenues and expenditures of \$16,680,814 and \$17,134,629, 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 POSITION  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2012**

**Assets**

Cash and pooled investments	\$	9,986,481
Cash with fiscal agent		599,126
Taxes receivable		
Prior - net		145,408
Special assessments receivable		
Prior - net		23,151
Noncurrent		385,914
Accounts receivable		305,719
Accrued interest receivable		6,752
Due from other governments		1,882,584
Inventories		302,248
Deferred debt issuance costs		78,031
Capital assets		
Non-depreciable		924,561
Depreciable - net of accumulated depreciation		44,649,299
		<b>\$ 59,289,274</b>

**Liabilities**

Accounts payable	\$	277,480
Salaries payable		354,638
Contracts payable		28,394
Due to other governments		109,279
Accrued interest payable		33,352
Unearned revenue		95,185
Advance from other governments		129,089
Long-term liabilities		
Due within one year		825,843
Due in more than one year		3,775,088
		<b>\$ 5,628,348</b>

**Net Position**

Net investment in capital assets	\$	43,288,736
Restricted for		
General government		151,301
Public safety		69,534
Highways and streets		1,052,349
Culture and recreation		152,732
Conservation of natural resources		325,664
Economic development		25,026
Debt service		300,278
Unrestricted		8,295,306
		<b>\$ 53,660,926</b>

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

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT 2*

**STATEMENT OF ACTIVITIES  
GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>Program Revenues</b>			<b>Net (Expense)</b>	
<b>Expenses</b>	<b>Fees, Charges, Fines, and Other</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Revenue and Changes in Net Position</b>	
<b><u>Functions/Programs</u></b>					
<b>Primary government</b>					
<b>Governmental activities</b>					
General government	\$ 3,765,321	\$ 505,075	\$ 590,778	\$ -	\$ (2,669,468)
Public safety	2,018,682	202,677	321,619	-	(1,494,386)
Highways and streets	4,615,620	607,847	3,201,696	525,813	(280,264)
Sanitation	219,863	178,237	27,975	-	(13,651)
Human services	4,497,194	619,258	2,007,670	-	(1,870,266)
Health	478,091	39,155	254,415	-	(184,521)
Culture and recreation	642,158	19,256	13,908	1,780	(607,214)
Conservation of natural resources	437,482	99,045	51,923	-	(286,514)
Economic development	108,918	60,212	-	-	(48,706)
Interest	86,642	-	-	-	(86,642)
<b>Total Governmental Activities</b>	<b>\$ 16,869,971</b>	<b>\$ 2,330,762</b>	<b>\$ 6,469,984</b>	<b>\$ 527,593</b>	<b>\$ (7,541,632)</b>
 <b>General Revenues</b>					
Property taxes				\$ 7,221,649	
Mortgage registry and deed tax				7,771	
Grants and contributions not restricted to specific programs				765,263	
Unrestricted investment earnings				61,206	
Miscellaneous				167,655	
<b>Total general revenues</b>				<b>\$ 8,223,544</b>	
<b>Change in net position</b>					<b>\$ 681,912</b>
<b>Net Position - January 1</b>					<b>52,979,014</b>
<b>Net Position - December 31</b>					<b>\$ 53,660,926</b>



**FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**EXHIBIT 3**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2012**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>Assets</u></b>						
Cash and pooled investments	\$ 5,067,486	\$ 1,393,558	\$ 2,234,445	\$ 299,446	\$ 991,546	\$ 9,986,481
Cash with fiscal agent	-	-	-	599,126	-	599,126
Taxes receivable						
Prior	69,048	21,179	39,186	5,449	10,546	145,408
Special assessments						
Prior	5,385	-	-	-	17,766	23,151
Noncurrent	385,914	-	-	-	-	385,914
Accounts receivable	18,502	54,935	232,282	-	-	305,719
Accrued interest receivable	5,189	175	-	-	1,388	6,752
Due from other funds	841	25,300	-	-	-	26,141
Due from other governments	109,011	1,268,633	348,775	150,000	6,165	1,882,584
Inventories	-	302,248	-	-	-	302,248
<b>Total Assets</b>	<b>\$ 5,661,376</b>	<b>\$ 3,066,028</b>	<b>\$ 2,854,688</b>	<b>\$ 1,054,021</b>	<b>\$ 1,027,411</b>	<b>\$ 13,663,524</b>
<b><u>Liabilities and Fund Balances</u></b>						
<b>Liabilities</b>						
Accounts payable	\$ 49,068	\$ 24,376	\$ 190,882	\$ -	\$ 13,154	\$ 277,480
Salaries payable	155,291	50,637	130,578	-	18,132	354,638
Contracts payable	-	28,394	-	-	-	28,394
Due to other funds	23,599	-	1,391	-	1,151	26,141
Due to other governments	51,065	-	35,534	-	22,680	109,279
Matured interest payable	-	-	-	388	-	388
Deferred revenue - unavailable	437,358	1,153,019	181,880	154,229	21,241	1,947,727
Deferred revenue - unearned	95,185	-	-	-	-	95,185
Advance from other governments	-	129,089	-	-	-	129,089
<b>Total Liabilities</b>	<b>\$ 811,566</b>	<b>\$ 1,385,515</b>	<b>\$ 540,265</b>	<b>\$ 154,617</b>	<b>\$ 76,358</b>	<b>\$ 2,968,321</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**EXHIBIT 3  
(Continued)**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2012**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>Liabilities and Fund Balances</u></b>						
<b>(Continued)</b>						
<b>Fund Balances</b>						
Nonspendable						
Inventories	\$ -	\$ 302,248	\$ -	\$ -	\$ -	\$ 302,248
Restricted for						
Recorder's equipment	61,674	-	-	-	-	61,674
Technology fees	69,605	-	-	-	-	69,605
E-911	64,168	-	-	-	-	64,168
Sheriff's contingency	5,366	-	-	-	-	5,366
HRA special benefit levy	25,026	-	-	-	-	25,026
Clean water partnership	15,638	-	-	-	-	15,638
ISTS loan repayments	328,754	-	-	-	-	328,754
Donations - veterans van	20,022	-	-	-	-	20,022
Ditch maintenance and repair	-	-	-	-	198,055	198,055
Donations - library	-	-	-	-	152,732	152,732
Debt service	-	-	-	899,404	-	899,404
Committed for						
Library operations	-	-	-	-	424,078	424,078
Assigned to						
Road and bridge	-	1,378,265	-	-	-	1,378,265
Human services	-	-	2,314,423	-	-	2,314,423
Solid waste	-	-	-	-	335,282	335,282
Unassigned	4,259,557	-	-	-	(159,094)	4,100,463
<b>Total Fund Balances</b>	<b>\$ 4,849,810</b>	<b>\$ 1,680,513</b>	<b>\$ 2,314,423</b>	<b>\$ 899,404</b>	<b>\$ 951,053</b>	<b>\$ 10,695,203</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 5,661,376</b>	<b>\$ 3,066,028</b>	<b>\$ 2,854,688</b>	<b>\$ 1,054,021</b>	<b>\$ 1,027,411</b>	<b>\$ 13,663,524</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

***EXHIBIT 4***

**RECONCILIATION OF THE FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
DECEMBER 31, 2012**

<b>Fund balances - total governmental funds (Exhibit 3)</b>		<b>\$</b>	<b>10,695,203</b>
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.			45,573,860
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			1,947,727
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	\$	(2,775,000)	
Accrued interest payable		(33,352)	
Matured interest payable		388	
Deferred debt issuance charges		78,031	
Discount on bonds		24,876	
Premium on bonds		(3,758)	
General obligation capital notes		(160,000)	
Loans payable		(606,851)	
Net OPEB liabilities		(215,329)	
Compensated absences		(864,869)	
		<u>(4,555,864)</u>	
<b>Net Position of Governmental Activities (Exhibit 1)</b>		<b>\$</b>	<b><u>53,660,926</u></b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT 5*

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>						
Taxes	\$ 3,484,738	\$ 1,095,289	\$ 1,881,495	\$ 263,862	\$ 505,956	\$ 7,231,340
Special assessments	122,001	-	-	-	260,299	382,300
Licenses and permits	11,130	-	-	-	-	11,130
Intergovernmental	1,330,619	3,720,309	2,490,594	23,066	105,679	7,670,267
Charges for services	693,616	313,400	448,036	-	2,774	1,457,826
Fines and forfeits	652	-	-	-	8,254	8,906
Gifts and contributions	8,362	-	-	-	1,780	10,142
Investment earnings	61,206	-	-	-	3,492	64,698
Miscellaneous	347,287	304,626	212,256	-	16,980	881,149
<b>Total Revenues</b>	<b>\$ 6,059,611</b>	<b>\$ 5,433,624</b>	<b>\$ 5,032,381</b>	<b>\$ 286,928</b>	<b>\$ 905,214</b>	<b>\$ 17,717,758</b>
<b>Expenditures</b>						
<b>Current</b>						
General government	\$ 3,591,578	\$ -	\$ -	\$ -	\$ -	\$ 3,591,578
Public safety	2,013,255	-	-	-	-	2,013,255
Highways and streets	-	5,616,480	-	-	-	5,616,480
Sanitation	-	-	-	-	246,160	246,160
Human services	-	-	4,451,282	-	-	4,451,282
Health	-	-	474,785	-	-	474,785
Culture and recreation	46,633	-	-	-	587,132	633,765
Conservation of natural resources	281,083	-	-	-	153,977	435,060
Economic development	108,748	-	-	-	-	108,748
<b>Intergovernmental</b>	-	192,614	-	-	-	192,614
<b>Capital outlay</b>	973	-	-	-	-	973
<b>Debt service</b>						
Principal	102,735	-	-	225,000	-	327,735
Interest	8,101	-	-	62,766	-	70,867
Bond issuance costs	-	-	-	28,525	-	28,525
Administrative charges	-	-	-	1,285	-	1,285
<b>Total Expenditures</b>	<b>\$ 6,153,106</b>	<b>\$ 5,809,094</b>	<b>\$ 4,926,067</b>	<b>\$ 317,576</b>	<b>\$ 987,269</b>	<b>\$ 18,193,112</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (93,495)</b>	<b>\$ (375,470)</b>	<b>\$ 106,314</b>	<b>\$ (30,648)</b>	<b>\$ (82,055)</b>	<b>\$ (475,354)</b>



**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**EXHIBIT 5  
(Continued)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Other Financing Sources (Uses)</b>						
Transfers in	\$ 43,120	\$ 5,017	\$ -	\$ -	\$ 2,143	\$ 50,280
Transfers out	(7,160)	-	(43,120)	-	-	(50,280)
Bonds issued	-	-	-	625,000	-	625,000
Premium on bonds issued	-	-	-	3,925	-	3,925
Proceeds from loan	42,713	-	-	-	-	42,713
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 78,673</b>	<b>\$ 5,017</b>	<b>\$ (43,120)</b>	<b>\$ 628,925</b>	<b>\$ 2,143</b>	<b>\$ 671,638</b>
<b>Net Change in Fund Balances</b>	<b>\$ (14,822)</b>	<b>\$ (370,453)</b>	<b>\$ 63,194</b>	<b>\$ 598,277</b>	<b>\$ (79,912)</b>	<b>\$ 196,284</b>
Fund Balances - January 1, as previously reported	\$ 5,445,574	\$ 2,010,995	\$ 2,251,229	\$ 301,127	\$ 450,023	\$ 10,458,948
Restatement (Note 1.E.)	(580,942)	-	-	-	580,942	-
<b>Fund Balances - January 1, as restated</b>	<b>\$ 4,864,632</b>	<b>\$ 2,010,995</b>	<b>\$ 2,251,229</b>	<b>\$ 301,127</b>	<b>\$ 1,030,965</b>	<b>\$ 10,458,948</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>39,971</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>39,971</b>
<b>Fund Balances - December 31</b>	<b>\$ 4,849,810</b>	<b>\$ 1,680,513</b>	<b>\$ 2,314,423</b>	<b>\$ 899,404</b>	<b>\$ 951,053</b>	<b>\$ 10,695,203</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT 6*

**RECONCILIATION OF THE CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**Net change in fund balances - total governmental funds (Exhibit 5) \$ 196,284**

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

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

Capital outlay expenditures	\$ 2,508,960	
Depreciation expense	<u>(1,560,479)</u>	948,481

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

Decrease in deferred revenue for taxes and special assessments	\$ (168,517)	
Increase in deferred revenue for grants and allotments	<u>70,373</u>	(98,144)

Issuing long-term debt (such as bonds or loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the net effect of 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	\$ (42,713)	
General obligation refunding bonds	(625,000)	
Premium on bonds	(3,925)	
New debt bond issuance costs	<u>28,525</u>	(643,113)

Repayment of debt principal		327,735
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Amortization of discounts on debt and issuance costs		(9,595)
--	--	---------

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	\$ 39,971	
Change in accrued interest payable	(4,895)	
Change in OPEB liabilities	(46,973)	
Change in compensated absences	<u>(27,839)</u>	<u>(39,736)</u>

**Change in Net Position of Governmental Activities (Exhibit 2) \$ 681,912**

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT 7*

**BUDGETARY COMPARISON STATEMENT  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 3,358,418	\$ 3,358,418	\$ 3,484,738	\$ 126,320
Special assessments	100,000	100,000	122,001	22,001
Licenses and permits	10,645	10,645	11,130	485
Intergovernmental	872,294	872,294	1,330,619	458,325
Charges for services	616,488	616,488	693,616	77,128
Fines and forfeits	-	-	652	652
Gifts and contributions	-	-	8,362	8,362
Investment earnings	65,000	65,000	61,206	(3,794)
Miscellaneous	106,660	106,660	347,287	240,627
	<u>\$ 5,129,505</u>	<u>\$ 5,129,505</u>	<u>\$ 6,059,611</u>	<u>\$ 930,106</u>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
County commissioners	\$ 216,628	\$ 216,628	\$ 194,551	\$ 22,077
Court administrator	41,200	41,200	49,811	(8,611)
Law library	14,000	14,000	14,847	(847)
County auditor	244,242	244,242	238,664	5,578
License center	92,940	92,940	92,389	551
County treasurer	143,721	143,721	136,517	7,204
Personnel	77,615	77,615	80,354	(2,739)
Central services	128,750	128,750	123,686	5,064
Elections	36,750	36,750	32,199	4,551
Information services	216,925	216,925	208,196	8,729
County attorney	255,059	255,059	256,994	(1,935)
Attorney's contingent	7,500	7,500	1,484	6,016
Victim witness	50,496	50,496	48,647	1,849
Drug court	3,528	3,528	-	3,528
County recorder	169,611	169,611	178,687	(9,076)
County assessor	253,453	253,453	247,268	6,185
Building maintenance	331,629	331,629	363,837	(32,208)
Veterans service	112,977	112,977	104,820	8,157
Motor pool	-	-	52,577	(52,577)
Public transit	289,658	289,658	344,902	(55,244)
Other general government	440,470	440,470	821,148	(380,678)
	<u>\$ 3,127,152</u>	<u>\$ 3,127,152</u>	<u>\$ 3,591,578</u>	<u>\$ (464,426)</u>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT 7  
(Continued)*

**BUDGETARY COMPARISON STATEMENT  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Public safety</b>				
County sheriff	\$ 1,184,518	\$ 1,184,518	\$ 1,153,178	\$ 31,340
Sheriff's contingent	5,000	5,000	-	5,000
Jail	450,915	450,915	452,731	(1,816)
E-911 and radio maintenance	398,000	398,000	182,479	215,521
County coroner	10,000	10,000	7,411	2,589
Court services	159,446	159,446	155,459	3,987
Emergency management	64,635	64,635	61,997	2,638
<b>Total public safety</b>	<b>\$ 2,272,514</b>	<b>\$ 2,272,514</b>	<b>\$ 2,013,255</b>	<b>\$ 259,259</b>
<b>Culture and recreation</b>				
County parks	\$ 22,000	\$ 22,000	\$ 15,833	\$ 6,167
Historical society	30,800	30,800	30,800	-
<b>Total culture and recreation</b>	<b>\$ 52,800</b>	<b>\$ 52,800</b>	<b>\$ 46,633</b>	<b>\$ 6,167</b>
<b>Conservation of natural resources</b>				
Environmental services	\$ 64,206	\$ 64,206	\$ 63,152	\$ 1,054
County extension	89,196	89,196	86,893	2,303
Agricultural society/fair grounds	41,000	41,000	34,310	6,690
Soil and water conservation	42,000	42,000	42,000	-
CWP project	26,046	26,046	(109)	26,155
Local water plan block grant	46,037	46,037	54,837	(8,800)
<b>Total conservation of natural resources</b>	<b>\$ 308,485</b>	<b>\$ 308,485</b>	<b>\$ 281,083</b>	<b>\$ 27,402</b>
<b>Economic development</b>				
Employment and training	\$ 59,788	\$ 59,788	\$ 60,748	\$ (960)
Economic development	49,960	49,960	48,000	1,960
<b>Total economic development</b>	<b>\$ 109,748</b>	<b>\$ 109,748</b>	<b>\$ 108,748</b>	<b>\$ 1,000</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT 7  
(Continued)*

**BUDGETARY COMPARISON STATEMENT  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures (Continued)</b>				
<b>Capital outlay</b>				
General government	\$ 27,000	\$ 27,000	\$ 973	\$ 26,027
<b>Debt service</b>				
Principal	\$ 106,200	\$ 106,200	\$ 102,735	\$ 3,465
Interest	\$ 8,200	\$ 8,200	\$ 8,101	\$ 99
<b>Total Expenditures</b>	<b>\$ 6,012,099</b>	<b>\$ 6,012,099</b>	<b>\$ 6,153,106</b>	<b>\$ (141,007)</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ (882,594)</b>	<b>\$ (882,594)</b>	<b>\$ (93,495)</b>	<b>\$ 789,099</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 43,120	\$ 43,120	\$ 43,120	\$ -
Transfers out	(171,000)	(171,000)	(7,160)	163,840
Proceeds from loans	-	-	42,713	42,713
<b>Total Other Financing Sources     (Uses)</b>	<b>\$ (127,880)</b>	<b>\$ (127,880)</b>	<b>\$ 78,673</b>	<b>\$ 206,553</b>
<b>Net Change in Fund Balance</b>	<b>\$ (1,010,474)</b>	<b>\$ (1,010,474)</b>	<b>\$ (14,822)</b>	<b>\$ 995,652</b>
Fund Balance - January 1, as previously reported				
	\$ 5,445,574	\$ 5,445,574	\$ 5,445,574	\$ -
Restatement (Note 1.E.)				
	(580,942)	(580,942)	(580,942)	-
<b>Fund Balance - January 1, as restated     (Note 1.E.)</b>	<b>\$ 4,864,632</b>	<b>\$ 4,864,632</b>	<b>\$ 4,864,632</b>	<b>\$ -</b>
<b>Fund Balance - December 31</b>	<b>\$ 3,854,158</b>	<b>\$ 3,854,158</b>	<b>\$ 4,849,810</b>	<b>\$ 995,652</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT 8*

**BUDGETARY COMPARISON STATEMENT  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,097,472	\$ 1,097,472	\$ 1,095,289	\$ (2,183)
Intergovernmental	4,149,914	4,149,914	3,720,309	(429,605)
Charges for services	275,000	275,000	313,400	38,400
Miscellaneous	151,000	151,000	304,626	153,626
<b>Total Revenues</b>	<b>\$ 5,673,386</b>	<b>\$ 5,673,386</b>	<b>\$ 5,433,624</b>	<b>\$ (239,762)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 485,380	\$ 485,380	\$ 453,806	\$ 31,574
Maintenance	1,548,927	1,548,927	1,409,179	139,748
Construction	2,323,391	2,323,391	2,142,162	181,229
Equipment maintenance and shop	955,738	955,738	1,333,637	(377,899)
Other	193,000	193,000	277,696	(84,696)
<b>Total highways and streets</b>	<b>\$ 5,506,436</b>	<b>\$ 5,506,436</b>	<b>\$ 5,616,480</b>	<b>\$ (110,044)</b>
<b>Intergovernmental</b>				
Highways and streets	185,000	185,000	192,614	(7,614)
<b>Total Expenditures</b>	<b>\$ 5,691,436</b>	<b>\$ 5,691,436</b>	<b>\$ 5,809,094</b>	<b>\$ (117,658)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (18,050)</b>	<b>\$ (18,050)</b>	<b>\$ (375,470)</b>	<b>\$ (357,420)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	4,050	4,050	5,017	967
<b>Net Change in Fund Balance</b>	<b>\$ (14,000)</b>	<b>\$ (14,000)</b>	<b>\$ (370,453)</b>	<b>\$ (356,453)</b>
<b>Fund Balance - January 1</b>	<b>2,010,995</b>	<b>2,010,995</b>	<b>2,010,995</b>	<b>-</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>-</b>	<b>39,971</b>	<b>39,971</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,996,995</b>	<b>\$ 1,996,995</b>	<b>\$ 1,680,513</b>	<b>\$ (316,482)</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT 9*

**BUDGETARY COMPARISON STATEMENT  
HUMAN SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,883,466	\$ 1,883,466	\$ 1,881,495	\$ (1,971)
Intergovernmental	2,247,404	2,247,404	2,490,594	243,190
Charges for services	392,364	392,364	448,036	55,672
Miscellaneous	139,050	139,050	212,256	73,206
<b>Total Revenues</b>	<b>\$ 4,662,284</b>	<b>\$ 4,662,284</b>	<b>\$ 5,032,381</b>	<b>\$ 370,097</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 1,006,353	\$ 1,006,353	\$ 1,021,980	\$ (15,627)
Social services	3,262,915	3,262,915	3,429,302	(166,387)
<b>Total human services</b>	<b>\$ 4,269,268</b>	<b>\$ 4,269,268</b>	<b>\$ 4,451,282</b>	<b>\$ (182,014)</b>
<b>Health</b>				
Community health services	468,016	468,016	474,785	(6,769)
<b>Total Expenditures</b>	<b>\$ 4,737,284</b>	<b>\$ 4,737,284</b>	<b>\$ 4,926,067</b>	<b>\$ (188,783)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (75,000)</b>	<b>\$ (75,000)</b>	<b>\$ 106,314</b>	<b>\$ 181,314</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	-	-	(43,120)	(43,120)
<b>Net Change in Fund Balance</b>	<b>\$ (75,000)</b>	<b>\$ (75,000)</b>	<b>\$ 63,194</b>	<b>\$ 138,194</b>
<b>Fund Balance - January 1</b>	<b>2,251,229</b>	<b>2,251,229</b>	<b>2,251,229</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,176,229</b>	<b>\$ 2,176,229</b>	<b>\$ 2,314,423</b>	<b>\$ 138,194</b>

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**FIDUCIARY FUNDS**

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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT 10*

**STATEMENT OF FIDUCIARY NET POSITION  
AGENCY FUNDS  
DECEMBER 31, 2012**

<u>Assets</u>	
Cash and pooled investments	\$ 194,532
Accrued interest	<u>42</u>
<b>Total Assets</b>	<b><u><u>\$ 194,574</u></u></b>
 <u>Liabilities</u>	
Accounts payable	\$ 24,512
Due to other governments	<u>170,062</u>
<b>Total Liabilities</b>	<b><u><u>\$ 194,574</u></u></b>

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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012**

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1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2012. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Joint Ventures

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

B. Basic Financial Statements

1. County-Wide Statements

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

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. County-Wide Statements (Continued)

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

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

The Road and Bridge Special Revenue Fund is used to account for restricted revenues from the federal and state government, as well as assigned property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

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

Additionally, the County reports the following fund types:

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

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

C. Measurement Focus and Basis of Accounting

The county-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the 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

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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 Position or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2012, 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 2012 were \$61,206.

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

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;



**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments (Continued)

- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Investments of the County are reported at fair value.

2. Receivables and Payables

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

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.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

2. Receivables and Payables (Continued)

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

3. Inventories

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

4. Capital Assets

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

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

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

4. Capital Assets (Continued)

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

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

5. Compensated Absences

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

6. Deferred Revenue

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

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

7. Long-Term Obligations

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

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

8. Classification of Net Position

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

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

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

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

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

9. Classification of Fund Balances

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

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

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

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

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

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

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

9. Classification of Fund Balances (Continued)

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

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

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 County Library Special Revenue Fund was previously reported as part of the General Fund. Beginning in 2012, the County Library activity will be reported as a special revenue fund. The following table summarizes the restatement.

	General Fund	County Library Special Revenue Fund
Fund Balance - January 1, as previously reported	\$ 5,445,574	\$ -
Restatement	(580,942)	580,942
Fund Balance - January 1, as restated	\$ 4,864,632	\$ 580,942

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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2. Stewardship, Compliance, and Accountability

A. Budgetary Information

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

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

The appropriated budget is prepared by fund, function, and department. Transfers of appropriations within a department and between departments require approval of the County Board. The legal level of budgetary control--the level at which expenditures may not legally exceed appropriations--is the fund level.

B. Excess of Expenditures Over Budget

The funds shown below had expenditures in excess of budget for the year ended December 31, 2012.

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund	\$ 6,153,106	\$ 6,012,099	\$ 141,007
Road and Bridge Special Revenue Fund	5,809,094	5,691,436	117,658
Human Services Special Revenue Fund	4,926,067	4,737,284	188,783
Debt Service Fund	317,576	288,766	28,810
County Ditch Special Revenue Fund	153,977	88,202	65,775
County Library Special Revenue Fund	587,132	573,650	13,482

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, 3 of 38 drainage systems had deficit fund balances at December 31, 2012.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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2. Stewardship, Compliance, and Accountability

C. Deficit Fund Equity (Continued)

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	\$ 198,100
Account balance deficit	<u>(159,094)</u>
Total	<u>\$ 39,006</u>

The County Ditch Special Revenue Fund's deficit will be eliminated with future special assessment levies against benefited properties. The County Ditch Special Revenue Fund had a fund balance of \$38,961 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	\$ 9,986,481
Cash with fiscal agent	599,126
Fiduciary funds	
Cash and pooled investments	
Agency funds	<u>194,532</u>
Total Cash and Investments	<u>\$ 10,780,139</u>



**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. It is County policy to minimize custodial credit risk of deposits by making deposits with financial institutions as defined by Minn. Stat. § 118A.01, and by obtaining necessary documentation of perfected security interest in pledged collateral from the financial institutions. As of December 31, 2012, the County's deposits were not exposed to custodial credit risk.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

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

At December 31, 2012, none of the County's investments were subject to custodial credit risk.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's policy to minimize concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimal. As of December 31, 2012, all of the County's investment carrying value balance of \$603,117 was invested in the MAGIC Fund.

2. Receivables

Receivables as of December 31, 2012, for the County are as follows:

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Taxes - prior	\$ 145,408	\$ -
Special assessments - prior	23,151	-
Special assessments - noncurrent	385,914	300,868
Accounts	305,719	-
Accrued interest	6,752	-
Due from other governments	<u>1,882,584</u>	<u>135,000</u>
Total	<u>\$ 2,749,528</u>	<u>\$ 435,868</u>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 695,771	\$ -	\$ 9,000	\$ 686,771
Construction in progress	<u>47,614</u>	<u>237,790</u>	<u>47,614</u>	<u>237,790</u>
Total capital assets not depreciated	<u>\$ 743,385</u>	<u>\$ 237,790</u>	<u>\$ 56,614</u>	<u>\$ 924,561</u>
Capital assets depreciated				
Buildings	\$ 7,889,289	\$ 26,630	\$ -	\$ 7,915,919
Land improvements	49,128	-	-	49,128
Machinery, furniture, and equipment	6,107,405	468,120	574,530	6,000,995
Infrastructure	<u>52,076,616</u>	<u>2,386,534</u>	<u>563,511</u>	<u>53,899,639</u>
Total capital assets depreciated	<u>\$ 66,122,438</u>	<u>\$ 2,881,284</u>	<u>\$ 1,138,041</u>	<u>\$ 67,865,681</u>
Less: accumulated depreciation for				
Buildings	\$ 2,802,463	\$ 178,956	\$ -	\$ 2,981,419
Land improvements	24,545	2,457	-	27,002
Machinery, furniture, and equipment	4,457,320	330,166	562,001	4,225,485
Infrastructure	<u>14,956,116</u>	<u>1,048,900</u>	<u>22,540</u>	<u>15,982,476</u>
Total accumulated depreciation	<u>\$ 22,240,444</u>	<u>\$ 1,560,479</u>	<u>\$ 584,541</u>	<u>\$ 23,216,382</u>
Total capital assets depreciated, net	<u>\$ 43,881,994</u>	<u>\$ 1,320,805</u>	<u>\$ 553,500</u>	<u>\$ 44,649,299</u>
Total Capital Assets, Net	<u>\$ 44,625,379</u>	<u>\$ 1,558,595</u>	<u>\$ 610,114</u>	<u>\$ 45,573,860</u>

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

General government	\$ 227,337
Public safety	77,788
Highways and streets, including depreciation of infrastructure assets	1,207,361
Human services	45,933
Culture and recreation	663
Conservation of natural resources	1,064
Sanitation	<u>333</u>
Total Depreciation Expense	<u>\$ 1,560,479</u>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2012, 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	\$ 841	Reimbursement for services
Road and Bridge	General	\$ 23,599	Reimbursement for services
	Human Services	550	Reimbursement for services
	Solid Waste	1,151	Reimbursement for services
Total due to Road and Bridge Fund		<u>\$ 25,300</u>	
Total Due To/From Other Funds		<u>\$ 26,141</u>	

The interfund receivables and payables are expected to be paid within one year of December 31, 2012.

2. Interfund Transfers

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>	<u>Purpose</u>
General	Road and Bridge	\$ 5,017	Allocated interest
	County Ditch	2,143	Allocated interest
Total transfers out of General Fund		\$ 7,160	
Human Services	General	43,120	2012 rent
Total Transfers In/Out		<u>\$ 50,280</u>	

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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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, 2012, the County recorded a liability of \$149,431 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 2012, there were approximately 140 participants in the plan, including 2 retirees. The implicit rate subsidy amount was determined by an actuarial study to be \$15,789 for 2012.

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		7,576
Adjustment to ARC		(10,444)
		(10,444)
Annual OPEB cost (expense)	\$	62,762
Contributions made		(15,789)
		(15,789)
Increase in net OPEB obligation	\$	46,973
Net OPEB obligation - January 1		168,356
		168,356
Net OPEB obligation - December 31	\$	215,329

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, 2010, 2011, and 2012, 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, 2010	\$ 56,017	\$ 21,524	38.4%	\$ 113,292
December 31, 2011	63,700	8,636	13.6	168,356
December 31, 2012	62,762	15,789	25.2	215,329

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**

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3. Detailed Notes on All Funds

C. Liabilities

1. Other Postemployment Benefits (OPEB)

Funded Status and Funding Progress (Continued)

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

Actuarial Methods and Assumptions

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

In the January 1, 2011, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of investment expenses), which is Watonwan County's implicit rate of return on the General Fund. The annual health care cost trend is 8.5 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 7 years. Neither rate includes an inflation assumption. The UAAL is being amortized over 30 years as a level dollar on a closed basis. The remaining amortization period at December 31, 2012, was 25 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, 2012</u>
G.O. Capital Improvement Bonds, Series 2005A	2026	\$35,000 - \$60,000	3.70 - 4.40	\$ 845,000	\$ 650,000
G.O. Capital Improvement Refunding Bonds, Series 2010A	2021	\$150,000 - \$180,000	1.00 - 3.00	1,650,000	1,500,000
G.O. Capital Notes, Series 2011	2016	\$40,000	1.95	200,000	160,000
G.O. Capital Improvement Crossover Refunding Bonds, Series 2012A	2026	\$50,000 - \$55,000	1.55 - 2.60	<u>625,000</u>	<u>625,000</u>
Total				<u>\$ 3,320,000</u>	\$ 2,935,000
Plus: unamortized premium					3,758
Less: unamortized discount					<u>(24,876)</u>
Total General Obligation Bonds, Net					<u>\$ 2,913,882</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, 2012</u>
Watonwan Watershed Clean Water Partnership Project, SRF0047	2014	\$22,853	2.00	\$ 485,926	\$ 67,211
Watonwan Watershed Continuation Clean Water Partnership Project, SRF0108	2017	\$28,212	2.00	541,173	267,208
Greater Blue Earth and Des Moines River Clean Water Partnership Project, SRF0221	2023	\$17,290	2.00	200,547	200,547
Watonwan Ag Best Management Loan Program	2021	\$633 - \$5,822	-	114,047	71,885
Total Loans				<u>\$ 1,341,693</u>	<u>\$ 606,851</u>

3. Debt Service Requirements

Debt service requirements at December 31, 2012, 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>
2013	\$ 185,000	\$ 70,871	\$ 40,000	\$ 3,120
2014	195,000	65,777	40,000	2,340
2015	250,000	61,857	40,000	1,560
2016	250,000	56,858	40,000	782
2017	255,000	51,360	-	-
2018 - 2022	1,195,000	154,233	-	-
2023 - 2027	445,000	31,212	-	-
Total	<u>\$ 2,775,000</u>	<u>\$ 492,168</u>	<u>\$ 160,000</u>	<u>\$ 7,802</u>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities

3. Debt Service Requirements (Continued)

Year Ending December 31	Loans Payable*	
	Principal	Interest
2013	\$ 106,187	\$ 6,211
2014	85,571	4,283
2015	64,313	3,004
2016	65,717	1,931
2017	67,151	835
2018 - 2022	17,365	-
Total	\$ 406,304	\$ 16,264

\*The debt service requirements for the loan from the Minnesota Pollution Control Agency in the amount of \$200,547 are not known as of December 31, 2012.

Debt Refunding

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

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
G.O. Capital Improvement Bonds, Series 2005A	\$ 685,000	\$ -	\$ 35,000	\$ 650,000	\$ 35,000
G.O. Capital Improvement Refunding Bonds, Series 2010A	1,650,000	-	150,000	1,500,000	150,000
G.O. Capital Notes, Series 2011	200,000	-	40,000	160,000	40,000
G.O. Capital Improvement Crossover Refund Bonds, Series 2012A	-	625,000	-	625,000	-
Plus: unamortized premium on bonds	-	3,925	167	3,758	-
Less: unamortized discount on bonds	<u>(27,670)</u>	<u>-</u>	<u>(2,794)</u>	<u>(24,876)</u>	<u>-</u>
Total bonds payable	\$ 2,507,330	\$ 628,925	\$ 222,373	\$ 2,913,882	\$ 225,000
Loans payable	666,873	42,713	102,735	606,851	106,187
Net OPEB liabilities	168,356	62,762	15,789	215,329	-
Compensated absences	<u>837,030</u>	<u>27,839</u>	<u>-</u>	<u>864,869</u>	<u>494,656</u>
Total Long-Term Liabilities	<u>\$ 4,179,589</u>	<u>\$ 762,239</u>	<u>\$ 340,897</u>	<u>\$ 4,600,931</u>	<u>\$ 825,843</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**

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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 \$460,000 per claim in 2012 and \$470,000 per claim in 2013. 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**

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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**

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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](http://www.mnpera.org); by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. 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**

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4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2012:

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, 2012, 2011, and 2010, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
General Employees Retirement Fund	\$ 357,458	\$ 346,562	\$ 286,527
Public Employees Police and Fire Fund	63,013	65,525	41,261
Public Employees Correctional Fund	20,408	20,121	13,162

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

B. Defined Contribution Plan

Five 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**

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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, 2012, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 4,739	\$ 4,739
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

5. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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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, Martin, Murray, Redwood, and Watonwan have agreed to guarantee their shares of debt arising within each respective county. The Red Rock Rural Water System provides water for participating rural water users and cities within the water district.

The 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, 2011 (the most current information available), amounted to \$13,555,000, and business-type indebtedness was \$203,588. The Water System's net assets increased by \$563,153 in 2011.

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 2012, Watonwan County made \$17,645 in contributions to the Collaborative.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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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 2012, Watonwan County made no contributions to the Collaborative. Any withdrawing party remains fiscally liable until the effective date of withdrawal. Should the Collaborative cease to exist, all property, real and personal, held by the Joint Powers Board at the time of the termination shall be distributed by resolution of the Board in accordance with law and in a manner to best accomplish the purpose of the Collaborative.

Rural Minnesota Energy Board

The Rural Minnesota Energy Board was established in 2005 under the authority of Minn. Stat. § 471.59. The 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 2012, Watonwan County paid \$2,000 to the Board.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Rural Minnesota Energy Board (Continued)

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

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. The County made no contributions to the GBERBA in 2012.

The Minnesota Counties Computer Cooperative provides computer programming services for the County. During the year, the County purchased \$68,668 of services.

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

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 2012.

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.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

The South Central 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.

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 made no payments 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 2012.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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

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 2012 is \$86,460. The proportionate share of the counties may change for years 2013 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.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT A-1*

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS  
DECEMBER 31, 2012**

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

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

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

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**SUPPLEMENTARY INFORMATION**

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

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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**DEBT SERVICE FUND**

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

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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT B-1*

**BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 264,166	\$ 264,166	\$ 263,862	\$ (304)
Intergovernmental	22,203	22,203	23,066	863
<b>Total Revenues</b>	<b>\$ 286,369</b>	<b>\$ 286,369</b>	<b>\$ 286,928</b>	<b>\$ 559</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 225,000	\$ 225,000	\$ 225,000	\$ -
Interest	62,766	62,766	62,766	-
Bond issuance cost	-	-	28,525	(28,525)
Administrative charges	1,000	1,000	1,285	(285)
<b>Total Expenditures</b>	<b>\$ 288,766</b>	<b>\$ 288,766</b>	<b>\$ 317,576</b>	<b>\$ (28,810)</b>
<b>Net Change in Fund Balance</b>	<b>\$ (2,397)</b>	<b>\$ (2,397)</b>	<b>\$ (30,648)</b>	<b>\$ (28,251)</b>
<b>Other Financing Sources (Uses)</b>				
Bonds issued	\$ -	\$ -	\$ 625,000	\$ 625,000
Premium on bonds issued	-	-	3,925	3,925
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 628,925</b>	<b>\$ 628,925</b>
<b>Change in Fund Balance</b>	<b>\$ (2,397)</b>	<b>\$ (2,397)</b>	<b>\$ 598,277</b>	<b>\$ 600,674</b>
<b>Fund Balance - January 1</b>	<b>301,127</b>	<b>301,127</b>	<b>301,127</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 298,730</b>	<b>\$ 298,730</b>	<b>\$ 899,404</b>	<b>\$ 600,674</b>

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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**OTHER GOVERNMENTAL FUNDS**

**NONMAJOR SPECIAL REVENUE FUNDS**

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

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

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

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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT C-1*

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2012**

	<u>Special Revenue Funds</u>			<u>Total</u>
	<u>County Ditch</u>	<u>County Library</u>	<u>Solid Waste</u>	
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 62,272	\$ 597,627	\$ 331,647	\$ 991,546
Taxes receivable				
Prior	-	10,288	258	10,546
Special assessments receivable				
Prior	47	-	17,719	17,766
Accrued interest receivable	-	1,388	-	1,388
Due from other governments	6,165	-	-	6,165
<b>Total Assets</b>	<b>\$ 68,484</b>	<b>\$ 609,303</b>	<b>\$ 349,624</b>	<b>\$ 1,027,411</b>
<b><u>Liabilities and Fund Balances</u></b>				
<b>Liabilities</b>				
Accounts payable	\$ 6,798	\$ 6,356	\$ -	\$ 13,154
Salaries payable	-	18,132	-	18,132
Due to other funds	-	-	1,151	1,151
Due to other governments	22,680	-	-	22,680
Deferred revenue - unavailable	45	8,005	13,191	21,241
<b>Total Liabilities</b>	<b>\$ 29,523</b>	<b>\$ 32,493</b>	<b>\$ 14,342</b>	<b>\$ 76,358</b>
<b>Fund Balances</b>				
Restricted for				
Ditch maintenance and repair	\$ 198,055	\$ -	\$ -	\$ 198,055
Donations - library	-	152,732	-	152,732
Committed for				
Library operations	-	424,078	-	424,078
Assigned to				
Solid waste	-	-	335,282	335,282
Unassigned	(159,094)	-	-	(159,094)
<b>Total Fund Balances</b>	<b>\$ 38,961</b>	<b>\$ 576,810</b>	<b>\$ 335,282</b>	<b>\$ 951,053</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 68,484</b>	<b>\$ 609,303</b>	<b>\$ 349,624</b>	<b>\$ 1,027,411</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT C-2*

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>Special Revenue Funds</b>			<b>Total</b>
	<b>County Ditch</b>	<b>County Library</b>	<b>Solid Waste</b>	
<b>Revenues</b>				
Taxes	\$ -	\$ 493,297	\$ 12,659	\$ 505,956
Special assessments	89,638	-	170,661	260,299
Intergovernmental	7,241	69,107	29,331	105,679
Charges for services	-	2,774	-	2,774
Fines and forfeits	-	8,254	-	8,254
Gifts and contributions	-	1,780	-	1,780
Investment earnings	-	3,492	-	3,492
Miscellaneous	3,381	4,296	9,303	16,980
<b>Total Revenues</b>	<b>\$ 100,260</b>	<b>\$ 583,000</b>	<b>\$ 221,954</b>	<b>\$ 905,214</b>
<b>Expenditures</b>				
<b>Current</b>				
Sanitation	\$ -	\$ -	\$ 246,160	\$ 246,160
Culture and recreation	-	587,132	-	587,132
Conservation of natural resources	153,977	-	-	153,977
<b>Total Expenditures</b>	<b>\$ 153,977</b>	<b>\$ 587,132</b>	<b>\$ 246,160</b>	<b>\$ 987,269</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (53,717)</b>	<b>\$ (4,132)</b>	<b>\$ (24,206)</b>	<b>\$ (82,055)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	2,143	-	-	2,143
<b>Net Change in Fund Balances</b>	<b>\$ (51,574)</b>	<b>\$ (4,132)</b>	<b>\$ (24,206)</b>	<b>\$ (79,912)</b>
Fund Balances - January 1, as previously reported	\$ 90,535	\$ -	\$ 359,488	\$ 450,023
Restatement (Note 1.E.)	-	580,942	-	580,942
<b>Fund Balances - January 1, as restated</b>	<b>\$ 90,535</b>	<b>\$ 580,942</b>	<b>\$ 359,488</b>	<b>\$ 1,030,965</b>
<b>Fund Balances - December 31</b>	<b>\$ 38,961</b>	<b>\$ 576,810</b>	<b>\$ 335,282</b>	<b>\$ 951,053</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT C-3*

**BUDGETARY COMPARISON SCHEDULE  
COUNTY DITCH SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Special assessments	\$ -	\$ 88,202	\$ 89,638	\$ 1,436
Intergovernmental	-	-	7,241	7,241
Miscellaneous	-	-	3,381	3,381
<b>Total Revenues</b>	<b>\$ -</b>	<b>\$ 88,202</b>	<b>\$ 100,260</b>	<b>\$ 12,058</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Other (ditch repairs)	-	88,202	153,977	(65,775)
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (53,717)</b>	<b>\$ (53,717)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	2,143	2,143
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (51,574)</b>	<b>\$ (51,574)</b>
<b>Fund Balance - January 1</b>	<b>90,535</b>	<b>90,535</b>	<b>90,535</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 90,535</b>	<b>\$ 90,535</b>	<b>\$ 38,961</b>	<b>\$ (51,574)</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT C-4*

**BUDGETARY COMPARISON SCHEDULE  
COUNTY LIBRARY SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 493,751	\$ 493,751	\$ 493,297	\$ (454)
Intergovernmental	53,499	53,499	69,107	15,608
Charges for services	3,000	3,000	2,774	(226)
Fines and forfeits	8,100	8,100	8,254	154
Gifts and contributions	-	-	1,780	1,780
Investment earnings	2,300	2,300	3,492	1,192
Miscellaneous	-	-	4,296	4,296
<b>Total Revenues</b>	<b><u>\$ 560,650</u></b>	<b><u>\$ 560,650</u></b>	<b><u>\$ 583,000</u></b>	<b><u>\$ 22,350</u></b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Culture and recreation</b>				
County library	\$ 573,650	\$ 573,650	\$ 585,112	\$ (11,462)
Library endowment	-	-	2,020	(2,020)
<b>Total Expenditures</b>	<b><u>\$ 573,650</u></b>	<b><u>\$ 573,650</u></b>	<b><u>\$ 587,132</u></b>	<b><u>\$ (13,482)</u></b>
<b>Net Change in Fund Balance</b>	<b><u>\$ (13,000)</u></b>	<b><u>\$ (13,000)</u></b>	<b><u>\$ (4,132)</u></b>	<b><u>\$ 8,868</u></b>
Fund Balance - January 1, as previously reported	\$ -	\$ -	\$ -	\$ -
Restatement (Note 1.E.)	580,942	580,942	580,942	-
<b>Fund Balance - January 1, as restated</b>	<b><u>\$ 580,942</u></b>	<b><u>\$ 580,942</u></b>	<b><u>\$ 580,942</u></b>	<b><u>\$ -</u></b>
<b>Fund Balance - December 31</b>	<b><u><u>\$ 567,942</u></u></b>	<b><u><u>\$ 567,942</u></u></b>	<b><u><u>\$ 576,810</u></u></b>	<b><u><u>\$ 8,868</u></u></b>



**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT C-5*

**BUDGETARY COMPARISON SCHEDULE  
SOLID WASTE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 12,405	\$ 12,405	\$ 12,659	\$ 254
Special assessments	184,375	184,375	170,661	(13,714)
Intergovernmental	57,295	57,295	29,331	(27,964)
Miscellaneous	12,950	12,950	9,303	(3,647)
<b>Total Revenues</b>	<b>\$ 267,025</b>	<b>\$ 267,025</b>	<b>\$ 221,954</b>	<b>\$ (45,071)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Sanitation</b>				
SCORE	278,945	278,945	246,160	32,785
<b>Net Change in Fund Balance</b>	<b>\$ (11,920)</b>	<b>\$ (11,920)</b>	<b>\$ (24,206)</b>	<b>\$ (12,286)</b>
<b>Fund Balance - January 1</b>	<b>359,488</b>	<b>359,488</b>	<b>359,488</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 347,568</b>	<b>\$ 347,568</b>	<b>\$ 335,282</b>	<b>\$ (12,286)</b>

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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**AGENCY FUNDS**

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

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

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

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

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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT D-1*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>AGENCY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 14,852	\$ 1,728,156	\$ 1,728,892	\$ 14,116
<b><u>Liabilities</u></b>				
Due to other governments	\$ 14,852	\$ 1,728,156	\$ 1,728,892	\$ 14,116
 <b><u>VISION FOR FAMILY AND COMMUNITY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 1,587	\$ 152,333	\$ 153,920	\$ -
<b><u>Liabilities</u></b>				
Due to other governments	\$ 1,587	\$ 152,333	\$ 153,920	\$ -
 <b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 158,386	\$ 14,538,912	\$ 14,541,352	\$ 155,946
<b><u>Liabilities</u></b>				
Due to other governments	\$ 158,386	\$ 14,538,912	\$ 14,541,352	\$ 155,946

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*EXHIBIT D-1  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>CEMETERY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 24,470	\$ 245	\$ 245	\$ 24,470
Accrued interest	-	42	-	42
<b>Total Assets</b>	<b>\$ 24,470</b>	<b>\$ 287</b>	<b>\$ 245</b>	<b>\$ 24,512</b>
<b><u>Liabilities</u></b>				
Accounts payable	<b>\$ 24,470</b>	<b>\$ 287</b>	<b>\$ 245</b>	<b>\$ 24,512</b>
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 199,295	\$ 16,419,646	\$ 16,424,409	\$ 194,532
Accrued interest	-	42	-	42
<b>Total Assets</b>	<b>\$ 199,295</b>	<b>\$ 16,419,688</b>	<b>\$ 16,424,409</b>	<b>\$ 194,574</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 24,470	\$ 287	\$ 245	\$ 24,512
Due to other governments	174,825	16,419,401	16,424,164	170,062
<b>Total Liabilities</b>	<b>\$ 199,295</b>	<b>\$ 16,419,688</b>	<b>\$ 16,424,409</b>	<b>\$ 194,574</b>

## **OTHER SCHEDULES**

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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**EXHIBIT E-1**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**Shared Revenue**

**State**

Highway users tax	\$ 3,257,698
PERA rate reimbursement	19,906
Disparity reduction aid	5,064
Police aid	51,780
County program aid	627,502
Market value credit	109,279
Enhanced 911	83,103

**Total shared revenue** **\$ 4,154,332**

**Reimbursement for Services**

**State**

Minnesota Department of Human Services	<b><u>\$ 478,522</u></b>
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**Payments**

**Local**

Local contributions	<b><u>\$ 19,378</u></b>
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**Grants**

**State**

Minnesota Department/Board of	
Public Safety	\$ 177,433
Health	64,441
Natural Resources	51,050
Human Services	662,444
Corrections	18,702
Transportation	418,332
Water and Soil Resources	44,682
Education	13,908
Pollution Control Agency	27,975
Peace Officer Standards and Training Board	2,325

**Total state** **\$ 1,481,292**

**Federal**

Department of	
Agriculture	\$ 182,630
Housing and Urban Development	188,047
Transportation	130,055
Health and Human Services	946,835
Homeland Security	89,176

**Total federal** **\$ 1,536,743**

**Total state and federal grants** **\$ 3,018,035**

**Total Intergovernmental Revenue** **\$ 7,670,267**

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**EXHIBIT E-2**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 90,360
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP)	10.561	<u>92,270</u>
<b>Total U.S. Department of Agriculture</b>		<b><u>\$ 182,630</u></b>
<b>U.S. Department of Housing and Urban Development</b>		
Passed Through Minnesota Department of Employment and Economic Development Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	<b><u>\$ 188,047</u></b>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Natural Resources Recreational Trails Program	20.219	\$ 75,000
Passed Through Minnesota Department of Transportation Formula Grants for Other Than Urbanized Areas	20.509	<u>55,055</u>
<b>Total U.S. Department of Transportation</b>		<b><u>\$ 130,055</u></b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Health Public Health Emergency Preparedness	93.069	\$ 19,854
Universal Newborn Hearing Screening	93.251	300
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	150
Temporary Assistance for Needy Families (TANF) Cluster TANF (Total TANF 93.558 \$110,817)	93.558	21,177
Maternal and Child Health Services Block Grant to the States	93.994	20,838

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**EXHIBIT E-2  
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Health and Human Services (Continued)</b>		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	2,378
Temporary Assistance for Needy Families (TANF) Cluster		
TANF	93.558	89,640
(Total TANF 93.558 \$110,817)		
Emergency Contingency Fund for TANF State Program - ARRA	93.714	49
Child Support Enforcement	93.563	210,320
Refugee and Entrant Assistance - State-Administered Programs	93.566	166
Child Care and Development Block Grant	93.575	3,308
Stephanie Tubbs Jones Child Welfare Services Program	93.645	2,970
Foster Care - Title IV-E	93.658	100,715
Social Services Block Grant	93.667	90,594
Chafee Foster Care Independence Program	93.674	19,591
Children's Health Insurance Program	93.767	28
Medical Assistance Program	93.778	364,757
		<hr/>
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 946,835</b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ 57,979
Emergency Management Performance Grants	97.042	31,197
		<hr/>
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 89,176</b>
		<hr/>
<b>Total Federal Awards</b>		<b>\$ 1,536,743</b>

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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

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1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Watonwan County under programs of the federal government for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Watonwan County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Watonwan County.

3. Summary of Significant Accounting Policies

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

4. Clusters

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

Temporary Assistance for Needy Families Cluster	\$ 110,866
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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

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5. Subrecipients

Of the expenditures presented in the schedule, Watonwan County provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
20.219	Recreational Trails Program	\$ 75,000

6. American Recovery and Reinvestment Act

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



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**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

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

**Financial Statements**

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

Internal control over financial reporting:

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

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

**Federal Awards**

Internal control over major programs:

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

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

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

The major programs are:

Community Development Block Grant	CFDA #14.228
Medical Assistance	CFDA #93.778

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

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

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

### INTERNAL CONTROL

#### ITEMS ARISING THIS YEAR

##### 12-1 Inventory Records

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

**Condition:** During our audit, we noted that several significant year-end inventory adjustments were made to the inventory system to correct balances based on the annual physical inventory count. The adjustments were made without investigation for cause and without review by a department head or supervisor.

During our audit, the County identified the following types of errors made during the year, which contributed to the year-end differences in the inventory system:

- additions were entered into the inventory system in the wrong account or for the wrong quantity;
- unit measures were not applied consistently to inventory items (for example, tons recorded as cubic yards); and
- inventory items modified or altered were not appropriately adjusted in the inventory system (for example, sand combined with salt without an adjustment to quantity or value).

Taking into consideration the identified errors, there were still significant differences that were not explained by Public Works personnel.

**Context:** The Public Works Department maintains an inventory system to monitor the movement of various County assets. Additions to the system are posted based on vendor invoices; withdrawals are based on requisition sheets/time sheets provided by Public Works personnel and reports from the fuel system. The County performs a year-end inventory count and makes adjustments in the inventory system to reflect actual inventory balances.

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

**Cause:** Inventory additions and withdrawals entered into the system during the year are not reviewed by another employee. Procedures are not in place for review of the year-end adjustments. In some cases, the procedures documented in the County-approved inventory policy are not followed or may not be sufficient to establish an effective system of controls.

**Recommendation:** We recommend the County determine where additional review procedures over adjustments to the inventory system could be implemented, develop procedures to ensure that all withdrawals of inventory are authorized and reported to the accounting personnel, and amend its inventory policy with procedures for review and approval of inventory adjustments.

Client's Response:

*The most significant discrepancy pertaining to 2012 inventory control was in regard to diesel fuel. This was caused by the requirement to prepay (and receive into the inventory system) the entire contracted fuel amount in 2012, for which over 9,000 gallons were not physically received until 2013. Additionally, the fuel vendor inadvertently delivered pre-paid fuel to outshop locations; fuel which was already inventoried at St. James. Future solicitations for contracts shall not allow any prepayment for fuel and shall require that all contracted fuel be received in St. James. These measures should address this problem.*

*Other inventory control issues regarding diesel fuel and unleaded gas were attributable to discrepancies between the dispensing system and the tank gauging system and issues related to thermal expansion/contraction of the fuel/gas. To minimize future discrepancies, the dispensing system and tank gauging system should be inspected and evaluated by a licensed contractor to assure consistency between the two systems. Also, the tanks will be periodically "sticked" as an additional check on the accuracy of the tank gauging system. If problems persist, the antiquated gauging and dispensing system may need to be replaced with modern system(s). Additionally, periodic review of transport fuel and gasoline temperatures at delivery will be compared to ambient tank temperature. If it appears that thermal expansion/contraction proportions are not offsetting during the course of the year, appropriate adjustments in volume will be made in the inventory system.*

*Other discrepancies in inventory control were caused by registering received items or quantities in the wrong account, using an inconsistent unit of measure, or modifying inventoried items. Periodic reviews of significant inventoried asset accounts will be conducted to assure additions to the inventory system are registered into the appropriate account. Regarding units of measure, the Public Works Department shall strive to be consistent in recording units of measure. The Department will consider the benefits of purchasing software such as "e-timecard" which would assure consistency in accounting*

*for units of measure. Moreover, inventory items that are modified or altered will be appropriately adjusted in the inventory system (i.e., gallons of water added to the chloride tank in winter to prevent freezing will be added to inventory as gallons of chloride).*

*Finally, significant year-end adjustments to inventory will be brought to the attention of the affected supervisor and department head as soon as discovered.*

## 12-2 Audit Adjustments

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

**Condition:** During our audit, we proposed audit adjustments which were reviewed and approved by the appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the County's internal control.

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

**Effect:** Audit adjustments were necessary for highway allotments receivable and for items related to the issuance of G.O. Capital Improvement Crossover Refunding Bonds, Series 2012A.

**Cause:** Highway allotments related to bridge bonding and advance funding were not reported in accordance with generally accepted accounting principles (GAAP). Cash with fiscal agent and bond proceeds from the issuance of G.O. Capital Improvement Crossover Refunding Bonds, Series 2012A, were overlooked for inclusion in the County's financial statements because they are being held in escrow.

**Recommendation:** We recommend that the County review internal controls currently in place and design and implement procedures to improve internal controls over financial reporting which will prevent, or detect and correct, misstatements in the financial statements and ensure the County's annual financial statements are reported in accordance with GAAP.

Client's Response:

*Revenue recognition of highway allotments has been an issue when dealing with the SAAS reports. We will try to address these issues in the future by increased communication with Highway Department personnel on project status and communication with State Auditor staff. The Auditor did not review the accounts receivables and will do so in the future.*

*The bond issue was a refunding bond, as such, none of the transactions were reflected in the County's financial records but rather in an escrow account. Adjusting journal entries will be made for future transactions of this nature.*

**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 deficit fund balances at December 31, 2012.

**Context:** At December 31, 2012, two ditch systems had negative cash balances totaling \$148,530, and three ditch systems had deficit fund balances of \$159,094.

**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.

**Recommendation:** 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:

*Addressing deficit balances in the individual ditch funds is an ongoing issue. The deficits are created by unforeseen repairs to the system that are in excess of the cash balances. It has not been and will not be the position of the Auditor's office to maintain repair account balances large enough to cover all possible repair contingencies. Annually, individual systems are analyzed and either assessed interest expense if the average monthly cash balance is negative or credited for interest revenue if the system maintains a cash balance. Because we do this assessment, there are no interest-free loans from the General Fund as those costs of carrying negative balances are assessed. As for "borrowing" to cover the deficit balances, it is the opinion of this office that this only creates further unnecessary accounting leading to an even greater opportunity for error. "Borrowings" only remove the negative cash balances. The fund remains a deficit and can only be addressed by assessment of the beneficiaries on the system.*

*Both systems that had negative cash balances at year-end had improvement petitions filed. Those costs are covered by a bond and, in the case of C.D. #62, the petition was denied and as of this date all costs have been recovered and there is a positive cash balance. In the case of improvements, the petitions can run for years and the costs cannot be assessed to beneficiaries because the responsible parties have not been determined until the petition is either granted or rejected.*



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

### Independent Auditor's Report

Board of County Commissioners  
Watonwan County

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Watonwan County as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 10, 2013.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Watonwan County's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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

reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 12-1 and 12-2, that we consider to be significant deficiencies.

### **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**

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: 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.

In connection with our audit, nothing came to our attention that caused us to believe that Watonwan County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as item 09-1. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.



## **Other Matters**

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

## **Purpose of This Report**

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 10, 2013

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

### Independent Auditor's Report

Board of County Commissioners  
Watonwan County

### **Report on Compliance for Each Major Federal Program**

We have audited Watonwan County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2012. Watonwan County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

#### ***Management's Responsibility***

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

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Watonwan County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program

occurred. An audit includes examining, on a test basis, evidence about Watonwan County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

***Opinion on Each Major Federal Program***

In our opinion, Watonwan County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

**Report on Internal Control Over Compliance**

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

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

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

## **Purpose of This Report**

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

September 10, 2013

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR