

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

WATONWAN COUNTY
ST. JAMES, MINNESOTA

YEAR ENDED DECEMBER 31, 2015

Description of the Office of the State Auditor

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

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

The State Auditor performs approximately 150 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

Pension - monitors investment, financial, and actuarial reporting for approximately 700 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, 2015



**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

TABLE OF CONTENTS

	Exhibit	Page
Introductory Section		
Organization		1
Financial Section		
Independent Auditor’s Report		2
Management’s Discussion and Analysis		5
Basic Financial Statements		
County-Wide Financial Statements		
Statement of Net Position	1	14
Statement of Activities	2	16
Fund Financial Statements		
Governmental Funds		
Balance Sheet	3	17
Reconciliation of the Fund Balances of Governmental Funds to the Statement of Net Position	4	21
Statement of Revenues, Expenditures, and Changes in Fund Balances	5	22
Reconciliation of the Changes in Fund Balances of Governmental Funds to the Change in Net Position of Governmental Activities	6	24
Budgetary Comparison Statements		
General Fund	7	25
Road and Bridge Special Revenue Fund	8	28
Human Services Special Revenue Fund	9	29
Fiduciary Funds		
Statement of Fiduciary Net Position - Agency Funds	10	30
Notes to the Financial Statements		31
Required Supplementary Information		
Schedule of Funding Progress - Other Postemployment Benefits	A-1	78
PERA General Employees Retirement Fund		
Schedule of Proportionate Share of Net Pension Liability	A-2	79
Schedule of Contributions	A-3	79
PERA Public Employees Police and Fire Fund		
Schedule of Proportionate Share of Net Pension Liability	A-4	80
Schedule of Contributions	A-5	80

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

TABLE OF CONTENTS

	Exhibit	Page
Financial Section		
Required Supplementary Information (Continued)		
PERA Public Employees Correctional Fund		
Schedule of Proportionate Share of Net Pension Liability	A-6	81
Schedule of Contributions	A-7	81
Supplementary Information		
Combining and Individual Fund Financial Statements and Schedules		
Debt Service Fund		82
Budgetary Comparison Schedule	B-1	83
Other Governmental Funds		
Nonmajor Governmental Funds		84
Combining Balance Sheet	C-1	85
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	C-2	86
Budgetary Comparison Schedules		
County Library Special Revenue Fund	C-3	87
Solid Waste Special Revenue Fund	C-4	88
Agency Funds		
Combining Statement of Changes in Assets and Liabilities - All Agency Funds	D-1	90
Other Schedules		
Schedule of Intergovernmental Revenue	E-1	92
Schedule of Expenditures of Federal Awards	E-2	93
Notes to the Schedule of Expenditures of Federal Awards		95
Management and Compliance Section		
Schedule of Findings and Questioned Costs		96
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		100
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance		103

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

ORGANIZATION
2015

Office	Name	Term Expires
Commissioners		
1st District	Raymond Gustafson*	January 2017
2nd District	Keith Brekken	January 2019
3rd District	David Holmgren	January 2017
4th District	Scott Sanders	January 2019
5th District	Kathleen Svalland	January 2017
Officers		
Elected		
Attorney	Stephen Lindee	January 2019
Auditor/Treasurer	Donald Kuhlman	January 2019
Recorder	Joy Sing	January 2019
Sheriff	Gary Menssen	January 2019
Appointed		
Assessor	Lynn Krachmer	January 2017
Court Administrator (State)	Kelly Iverson	Indefinite
Coroner	Dr. Lindy Eatwell	January 2019
Highway Engineer	Roger Risser	May 2019
Probation Officer	Paul Harris	Indefinite
Veterans Service Officer	Deb Grote	Indefinite
Human Services Director	David Christianson**	October 2015

*2015 Chair

**In December 2015, Naomi Ochsendorf was appointed Human Services Director, effective January 19, 2016.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Watonwan County
St. James, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Watonwan County, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinions

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Watonwan County as of December 31, 2015, and the respective changes in financial position thereof and the respective budgetary comparisons of the General Fund, Road and Bridge Special Revenue Fund, and Human Services Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2015 the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB Statement No. 82, *Pension Issues*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Watonwan County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is

not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 7, 2016, on our consideration of Watonwan County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Watonwan County's internal control over financial reporting and compliance.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Watonwan County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) as required by Title 2 U.S. *Code of Federal Regulations* Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The SEFA is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 7, 2016

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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, 2015
(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, 2015. We encourage readers to consider the information presented here in conjunction with the County's basic financial statements following this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of Watonwan County exceeded its liabilities and deferred inflows of resources at the close of 2015 by \$53,964,629. Of this amount, \$3,999,941 (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 \$849,308 after the restatement for Governmental Accounting Standards Board (GASB) Statements 68 and 71. Additional information about the implementation of GASB Statements 68 and 71 can be found in Note 1.E.
- At the close of 2015, Watonwan County's governmental funds reported combined ending fund balances of \$10,996,432, of which \$2,895,467 is unassigned and is available for spending at the County's discretion.
- At the close of 2015, unassigned fund balance for the General Fund was \$4,854,284, or 78.1 percent, of total General Fund expenditures.
- Watonwan County's total bonds and capital notes payable decreased by \$375,000. There were payments of \$160,000 on the G.O. Capital Improvement Plan Refunding Bonds, Series 2010A, and \$50,000 payments on both the G.O. Capital Improvement Plan Crossover Refunding Bonds, Series 2012A, and the G.O. Capital Improvement Plan Bonds, Series 2013A. In addition, payments of \$40,000 and \$75,000 were made on G.O. Capital Notes, Series 2011 and Series 2014, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

County-Wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

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

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

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

Notes to the Financial Statements

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

Other Information

In addition to the basic financial statements and notes, this report also presents certain required supplementary information concerning Watowan County's progress in funding its obligation to provide other postemployment benefits to its employees (Exhibit A-1) and schedules of the proportionate share of net pension liability and schedules of contributions (Exhibits A-2 to A-7). In addition, the County also provides supplementary information on intergovernmental revenue and expenditures of federal awards (Exhibits E-1 and E-2).

Watonwan County adopts an annual appropriated budget for its General Fund, special revenue funds (with the exception of the County Ditch Special Revenue Fund), and the Debt Service Fund. Budgetary comparison statements have been provided for the County's major funds to demonstrate compliance with these budgets.

County-Wide Financial Analysis

Over time, net position serves as a useful indicator of the County's financial position. Watonwan County's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$53,964,629 at the close of 2015. The largest portion of Watonwan County's net position (88.4 percent) reflects its investment in capital assets (for example, land, buildings, and equipment), less any related debt used to acquire those assets that is still outstanding. However, it should be noted that these assets are not available for future spending.

Governmental Net Position

	2014 Restated*	2015
Assets		
Current and other assets	\$ 16,918,963	\$ 14,099,304
Capital assets	<u>46,908,738</u>	<u>50,821,518</u>
Total Assets	<u>\$ 63,827,701</u>	<u>\$ 64,920,822</u>
Deferred Outflows of Resources	<u>\$ 248,531</u>	<u>\$ 845,265</u>
Liabilities		
Long-term liabilities outstanding	\$ 10,311,363	\$ 10,072,416
Other liabilities	<u>649,548</u>	<u>1,127,040</u>
Total Liabilities	<u>\$ 10,960,911</u>	<u>\$ 11,199,456</u>
Deferred Inflows of Resources	<u>\$ -</u>	<u>\$ 602,002</u>
Net Position		
Net investment in capital assets	\$ 43,413,577	\$ 47,700,289
Restricted	5,160,121	2,264,399
Unrestricted	<u>4,541,623</u>	<u>3,999,941</u>
Total Net Position, as restated*	<u>\$ 53,115,321</u>	<u>\$ 53,964,629</u>

*Restatement for change in accounting principles; see Note 1.E.

The unrestricted net position amount of \$3,999,941 as of December 31, 2015, may be used to meet the County's ongoing obligations to citizens and creditors.

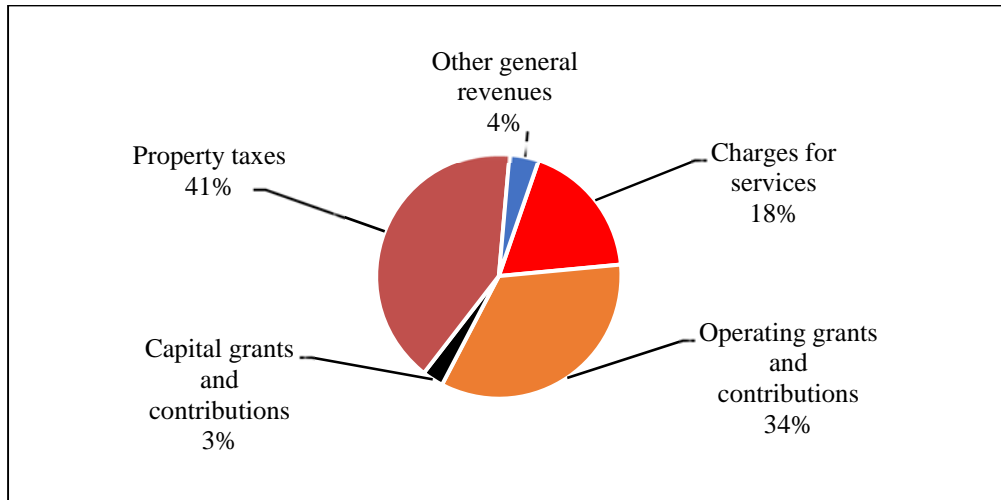
Governmental Activities

The following table summarizes the changes in net position for 2015.

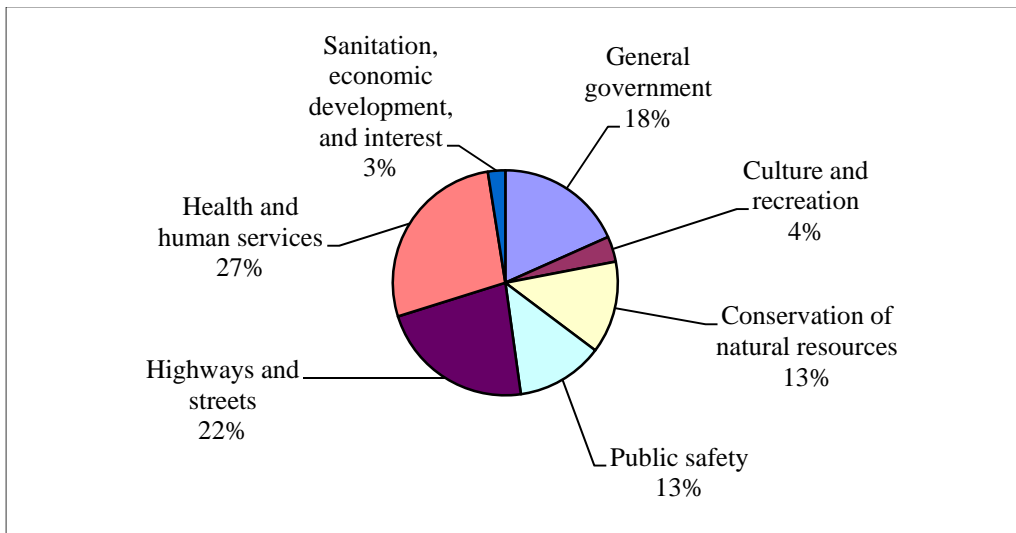
	2014	2015
Changes in Governmental Net Position		
Revenues		
Program revenues		
Charges for services	\$ 3,181,449	\$ 3,645,909
Operating grants and contributions	6,802,955	6,833,671
Capital grants and contributions	4,668	560,821
General revenues		
Property taxes	7,873,925	8,188,165
Other	942,147	773,912
Total Revenues	<u>\$ 18,805,144</u>	<u>\$ 20,002,478</u>
Expenses		
General government	\$ 3,648,732	\$ 3,511,368
Public safety	2,174,018	2,399,311
Highways and streets	3,848,808	4,287,436
Sanitation	261,001	252,899
Human services	4,493,192	4,655,153
Health	523,431	582,483
Culture and recreation	628,657	699,111
Conservation of natural resources	421,500	2,541,473
Economic development	115,612	117,367
Interest	129,764	106,569
Total Expenses	<u>\$ 16,244,715</u>	<u>\$ 19,153,170</u>
Change in Net Position	\$ 2,560,429	\$ 849,308
Net Position - January 1, as restated	<u>55,239,059</u>	<u>53,115,321*</u>
Net Position - December 31, as reported	<u>\$ 57,799,488</u>	<u>\$ 53,964,629</u>

*Amount includes a change in accounting principles; see Note 1.E.

Sources of County Revenues



Where County Funds Are Spent



FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

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

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

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$10,996,432. Of this amount, \$2,895,467 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 \$4,854,284, while the total fund balance was \$5,925,446. 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 78.1 percent of total General Fund expenditures for 2015, while total fund balance represents 95.3 percent of total General Fund expenditures. In 2015, the total fund balance in the General Fund increased by \$125,450, with unassigned fund balances increasing by \$71,129 and restricted fund balances increasing by \$54,321.

The Road and Bridge Special Revenue Fund's fund balance decreased by \$1,827,279 in 2015. The fund showed an excess of expenditures over revenues of \$1,734,976, or a budget variance of \$163,917. In 2015, there were significant concrete overlay projects on County State-Aid Highways 5 and 8. The fund budgeted revenues and expenditures for the Watline Trail project in 2015, which was delayed until 2016.

In 2015, the Human Services Special Revenue Fund's fund balance increased by \$105,380. Total revenues were under budget by \$101,247, while expenditures were under budget by \$206,627, resulting in the net increase.

The County Ditch Special Revenue Fund's fund balance decreased by \$1,797,008 in 2015. In 2015, there were significant ditch improvement projects on Joint Ditch Nos. 2 and 13. The fund will collect special assessments in future years to cover the deficit.

In 2015, the Debt Service Fund's fund balance increased by \$19,528. Tax collections were greater than the debt obligations in 2015.

General Fund Budgetary Highlights

There were insignificant budget variances across the board for operational revenues and expenditures in the General Fund, with total revenues exceeding budget by \$229,077, or about 3.80 percent. Total expenditures were greater than the budget by \$111,051, or 1.82 percent.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2015, amounts to \$50,821,518 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, land improvements, equipment, and infrastructure. The total increase in the County's investment in capital assets, net of depreciation, for the current fiscal year was \$3,912,780.

	<u>2014</u>	<u>2015</u>
Land	\$ 686,771	\$ 686,771
Construction in progress	268,902	1,106,875
Land improvements	145,060	136,047
Buildings	5,489,992	5,285,666
Machinery, furniture, and equipment	2,125,681	1,999,832
Infrastructure	<u>38,192,332</u>	<u>41,606,327</u>
Total	<u>\$ 46,908,738</u>	<u>\$ 50,821,518</u>

Additional information on the County's capital assets can be found in Note 3.A.3. to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the County had total general obligation bonds and notes outstanding of \$3,455,000, which is backed by the full faith and credit of the government.

	<u>2014</u>	<u>2015</u>
General obligation bonds and notes	<u>\$ 3,830,000</u>	<u>\$ 3,455,000</u>

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

Additional information on the County's debt can be found in Note 3.C. to the financial statements.

Minnesota statutes limit the amount of debt that a county may levy to three percent of its total market value. As of the end of 2015, Watonwan County is well below the three percent debt limit imposed by state statutes.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

- Watonwan County's unemployment rate was 4.7 percent as of the end of 2015, over a full percentage point higher than the state-wide rate of 3.6 percent.
- Total taxable values and home values remained virtually unchanged from 2014 to 2015.

At the end of 2015, Watonwan County set its 2016 revenue and expenditure budgets, budgeting revenues and expenditures of \$22,923,096 and \$23,615,477, respectively.

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

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COUNTY-WIDE FINANCIAL STATEMENTS

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2015**

Assets

Cash and pooled investments	\$	9,958,911
Taxes receivable		
Delinquent		97,473
Special assessments receivable		
Delinquent		15,330
Noncurrent		1,176,397
Accounts receivable		321,790
Accrued interest receivable		15,295
Due from other governments		1,333,628
Advance from other governments		908,232
Inventories		272,248
Capital assets		
Non-depreciable		1,793,646
Depreciable - net of accumulated depreciation		49,027,872
Total Assets	\$	<u>64,920,822</u>

Deferred Outflows of Resources

Deferred pension outflows	\$	845,265
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Liabilities

Accounts payable	\$	234,832
Salaries payable		211,644
Contracts payable		397,371
Due to other governments		131,540
Accrued interest payable		42,567
Unearned revenue		109,086
Long-term liabilities		
Due within one year		984,177
Due in more than one year		3,802,122
Other postemployment benefits obligations		214,122
Net pension liability		5,071,995
Total Liabilities	\$	<u>11,199,456</u>

Deferred Inflows of Resources

Deferred pension inflows	\$	602,002
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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

***EXHIBIT 1
(Continued)***

**STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2015**

Net Position

Net investment in capital assets	\$ 47,700,289
Restricted for	
General government	231,888
Public safety	160,353
Highways and streets	540,182
Culture and recreation	435,300
Conservation of natural resources	386,319
Economic development	20,503
Debt service	489,854
Unrestricted	<u>3,999,941</u>
Total Net Position	<u><u>\$ 53,964,629</u></u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Program Revenues			Net (Expense)
Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
<u>Functions/Programs</u>				
Primary government				
Governmental activities				
General government	\$ 3,511,368	\$ 793,175	\$ 338,503	\$ -
Public safety	2,399,311	209,362	203,049	-
Highways and streets	4,287,436	547,043	3,492,187	560,821
Sanitation	252,899	182,379	69,692	-
Human services	4,655,153	459,345	2,301,286	-
Health	582,483	55,084	312,393	-
Culture and recreation	699,111	18,473	22,540	-
Conservation of natural resources	2,541,473	1,310,245	94,021	-
Economic development	117,367	70,803	-	-
Interest	106,569	-	-	-
Total Governmental Activities	\$ 19,153,170	\$ 3,645,909	\$ 6,833,671	\$ 560,821
 General Revenues				
Property taxes				\$ 8,188,165
Mortgage registry and deed tax				5,262
Wheelage tax				122,716
Grants and contributions not restricted to specific programs				447,024
Unrestricted investment earnings				122,939
Miscellaneous				75,971
Total general revenues				\$ 8,962,077
Change in net position				\$ 849,308
Net Position - January 1, as previously reported				\$ 57,799,488
Restatement (Note 1.E.)				(4,684,167)
Net Position - January 1, as restated				\$ 53,115,321
Net Position - December 31				\$ 53,964,629

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 3,340,625	\$ 1,782,575
Taxes receivable - delinquent	47,824	12,644
Special assessments receivable		
Delinquent	862	-
Noncurrent	336,091	-
Accounts receivable	16,931	-
Accrued interest receivable	14,282	-
Due from other funds	2,862,957	19,572
Due from other governments	49,062	714,667
Advance from other governments	-	-
Inventories	-	272,248
	\$ 6,668,634	\$ 2,801,706
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 59,628	\$ 54,183
Salaries payable	102,825	29,812
Contracts payable	-	-
Due to other funds	31,396	10,552
Due to other governments	74,918	1,033
Unearned revenue	109,086	-
	\$ 377,853	\$ 95,580
Deferred Inflows of Resources		
Unavailable revenue	\$ 365,335	\$ 550,259

EXHIBIT 3

<u>Human Services</u>	<u>County Ditch</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 2,568,131	\$ 380,730	\$ 488,363	\$ 1,398,487	\$ 9,958,911
24,993	-	5,085	6,927	97,473
-	32	-	14,436	15,330
-	840,306	-	-	1,176,397
136,019	168,840	-	-	321,790
-	-	-	1,013	15,295
12,093	10,517	-	-	2,905,139
448,946	17,953	103,000	-	1,333,628
-	908,232	-	-	908,232
-	-	-	-	272,248
<u>\$ 3,190,182</u>	<u>\$ 2,326,610</u>	<u>\$ 596,448</u>	<u>\$ 1,420,863</u>	<u>\$ 17,004,443</u>
\$ 107,646	\$ 12,914	\$ -	\$ 461	\$ 234,832
68,911	-	-	10,096	211,644
-	397,371	-	-	397,371
19,524	2,843,667	-	-	2,905,139
51,605	3,984	-	-	131,540
-	-	-	-	109,086
<u>\$ 247,686</u>	<u>\$ 3,257,936</u>	<u>\$ -</u>	<u>\$ 10,557</u>	<u>\$ 3,989,612</u>
<u>\$ 140,260</u>	<u>\$ 840,339</u>	<u>\$ 106,594</u>	<u>\$ 15,612</u>	<u>\$ 2,018,399</u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	General	Road and Bridge
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u> (Continued)		
Fund Balances		
Nonspendable - inventories	\$ -	\$ 272,248
Restricted for		
Law library	20,348	-
Recorder's equipment	104,110	-
Technology fees	102,277	-
E-911	156,904	-
Sheriff's contingency	3,449	-
HRA special benefit levy	20,503	-
Invasive species	48,420	-
ISTS loan repayments	261,156	-
Donations - veterans' van	5,153	-
Ditch maintenance and repair	-	-
Donations - library	-	-
Capital projects	348,842	-
Debt service	-	-
Committed for library operations	-	-
Assigned to		
Road and bridge	-	1,883,619
Human services	-	-
Solid waste	-	-
Unassigned	4,854,284	-
Total Fund Balances	\$ 5,925,446	\$ 2,155,867
 Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 6,668,634	\$ 2,801,706

**EXHIBIT 3
(Continued)**

<u>Human Services</u>	<u>County Ditch</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ -	\$ 272,248
-	-	-	-	20,348
-	-	-	-	104,110
-	-	-	-	102,277
-	-	-	-	156,904
-	-	-	-	3,449
-	-	-	-	20,503
-	-	-	-	48,420
-	-	-	-	261,156
-	-	-	-	5,153
-	187,152	-	-	187,152
-	-	-	435,300	435,300
-	-	-	-	348,842
-	-	489,854	-	489,854
-	-	-	514,484	514,484
-	-	-	-	1,883,619
2,802,236	-	-	-	2,802,236
-	-	-	444,910	444,910
-	(1,958,817)	-	-	2,895,467
<u>\$ 2,802,236</u>	<u>\$ (1,771,665)</u>	<u>\$ 489,854</u>	<u>\$ 1,394,694</u>	<u>\$ 10,996,432</u>
<u>\$ 3,190,182</u>	<u>\$ 2,326,610</u>	<u>\$ 596,448</u>	<u>\$ 1,420,863</u>	<u>\$ 17,004,443</u>

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF THE FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2015**

Fund balances - total governmental funds (Exhibit 3)		\$ 10,996,432
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.		50,821,518
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds.		2,018,399
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.		
Deferred outflows related to pensions		845,265
Deferred inflows related to pensions		(602,002)
Governmental funds do not report a liability for accrued interest on long-term liabilities until due and payable.		(42,567)
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	\$ (2,975,000)	
Discount on bonds	11,817	
Premium on bonds	(26,888)	
General obligation capital notes	(480,000)	
Loans payable	(501,264)	
Net OPEB liabilities	(214,122)	
Net pension liability	(5,071,995)	
Compensated absences	(814,964)	
	(10,072,416)	
Net Position of Governmental Activities (Exhibit 1)		\$ 53,964,629

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	General	Road and Bridge
Revenues		
Taxes	\$ 4,122,131	\$ 1,199,027
Special assessments	110,626	-
Licenses and permits	9,961	-
Intergovernmental	868,663	4,864,300
Charges for services	727,505	427,577
Fines and forfeits	988	-
Gifts and contributions	8,395	-
Investment earnings	122,939	-
Miscellaneous	292,164	118,522
	\$ 6,263,372	\$ 6,609,426
Expenditures		
Current		
General government	\$ 3,237,250	\$ -
Public safety	2,295,659	-
Highways and streets	-	8,128,284
Sanitation	-	-
Human services	-	-
Health	-	-
Culture and recreation	66,132	-
Conservation of natural resources	350,314	-
Economic development	118,964	-
Intergovernmental	-	216,118
Capital outlay	27,286	-
Debt service		
Principal	114,455	-
Interest	8,796	-
Administrative charges	-	-
	\$ 6,218,856	\$ 8,344,402
Excess of Revenues Over (Under) Expenditures	\$ 44,516	\$ (1,734,976)
Other Financing Sources (Uses)		
Proceeds from loan	80,934	-
	\$ 125,450	\$ (1,734,976)
Fund Balances - January 1	5,799,996	3,983,146
Increase (decrease) in inventories	-	(92,303)
	\$ 5,925,446	\$ 2,155,867

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

EXHIBIT 5

<u>Human Services</u>	<u>County Ditch</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 2,061,337	\$ -	\$ 463,853	\$ 582,156	\$ 8,428,504
-	388,030	-	172,404	671,060
-	-	-	-	9,961
2,723,221	-	31,264	120,188	8,607,636
305,852	-	-	4,029	1,464,963
-	-	-	7,446	8,434
-	-	-	3,960	12,355
-	-	-	6,629	129,568
212,542	1,330	-	12,391	636,949
\$ 5,302,952	\$ 389,360	\$ 495,117	\$ 909,203	\$ 19,969,430
\$ -	\$ -	\$ -	\$ -	\$ 3,237,250
-	-	-	-	2,295,659
-	-	-	-	8,128,284
-	-	-	222,833	222,833
4,598,505	-	-	-	4,598,505
599,067	-	-	-	599,067
-	-	-	641,394	707,526
-	2,186,368	-	-	2,536,682
-	-	-	-	118,964
-	-	-	-	216,118
-	-	-	-	27,286
-	-	375,000	-	489,455
-	-	98,669	-	107,465
-	-	1,920	-	1,920
\$ 5,197,572	\$ 2,186,368	\$ 475,589	\$ 864,227	\$ 23,287,014
\$ 105,380	\$ (1,797,008)	\$ 19,528	\$ 44,976	\$ (3,317,584)
-	-	-	-	80,934
\$ 105,380	\$ (1,797,008)	\$ 19,528	\$ 44,976	\$ (3,236,650)
2,696,856	25,343	470,326	1,349,718	14,325,385
-	-	-	-	(92,303)
\$ 2,802,236	\$ (1,771,665)	\$ 489,854	\$ 1,394,694	\$ 10,996,432

**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, 2015**

Net change in fund balances - total governmental funds (Exhibit 5) \$ (3,236,650)

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

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

Capital outlay expenditures	\$ 5,633,295	
Depreciation expense	(1,720,515)	3,912,780

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

Increase in unavailable revenue for taxes and special assessments	\$ 801,267	
Decrease in unavailable revenue for grants and allotments	(772,989)	28,278

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

Proceeds of new debt - loans payable	\$ (80,934)	
Repayment of debt principal	489,455	
Amortization of premium/discount on debt	(708)	407,813

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	\$ (92,303)	
Change in accrued interest payable	3,524	
Change in OPEB liabilities	(54,760)	
Change in compensated absences	25,191	
Change in net pension obligation, as restated	(139,297)	
Change in net deferred pension outflows, as restated	596,734	
Change in net deferred pension inflows	(602,002)	(262,913)

Change in Net Position of Governmental Activities (Exhibit 2) \$ 849,308

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 7

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 4,018,768	\$ 4,018,768	\$ 4,122,131	\$ 103,363
Special assessments	92,600	92,600	110,626	18,026
Licenses and permits	12,625	12,625	9,961	(2,664)
Intergovernmental	792,197	792,197	868,663	76,466
Charges for services	747,012	747,012	727,505	(19,507)
Fines and forfeits	-	-	988	988
Gifts and contributions	7,500	7,500	8,395	895
Investment earnings	70,000	70,000	122,939	52,939
Miscellaneous	293,593	293,593	292,164	(1,429)
Total Revenues	\$ 6,034,295	\$ 6,034,295	\$ 6,263,372	\$ 229,077
Expenditures				
Current				
General government				
County commissioners	\$ 208,086	\$ 208,086	\$ 185,462	\$ 22,624
Court administrator	35,000	35,000	25,253	9,747
Law library	15,000	15,000	4,609	10,391
County auditor	321,678	321,678	323,821	(2,143)
License center	96,871	96,871	96,874	(3)
Personnel	93,429	93,429	89,967	3,462
Central services	142,532	142,532	171,368	(28,836)
Elections	7,000	7,000	7,960	(960)
Information services	246,505	246,505	225,639	20,866
County attorney	266,536	266,536	242,568	23,968
Attorney's contingent	7,500	7,500	1,301	6,199
County recorder	192,841	192,841	198,468	(5,627)
County assessor	295,035	295,035	288,963	6,072
Building maintenance	305,788	305,788	287,869	17,919
Veterans service	121,527	121,527	172,165	(50,638)
Motor pool	75,000	75,000	66,506	8,494
Public transit	442,914	442,914	367,414	75,500
Other general government	395,539	395,539	481,043	(85,504)
Total general government	\$ 3,268,781	\$ 3,268,781	\$ 3,237,250	\$ 31,531

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**EXHIBIT 7
(Continued)**

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
County sheriff	\$ 1,279,795	\$ 1,279,795	\$ 1,338,550	\$ (58,755)
Sheriff's contingent	5,000	5,000	-	5,000
Jail	537,915	537,915	582,745	(44,830)
E-911 and radio maintenance	40,500	40,500	70,204	(29,704)
County coroner	12,000	12,000	27,478	(15,478)
Court services	189,023	189,023	183,930	5,093
Emergency management	74,745	74,745	79,429	(4,684)
Public Health Emergency Preparedness	13,476	13,476	13,323	153
Total public safety	\$ 2,152,454	\$ 2,152,454	\$ 2,295,659	\$ (143,205)
Culture and recreation				
County parks	\$ 24,700	\$ 24,700	\$ 27,632	\$ (2,932)
Historical society	38,500	38,500	38,500	-
Total culture and recreation	\$ 63,200	\$ 63,200	\$ 66,132	\$ (2,932)
Conservation of natural resources				
Environmental services	\$ 134,176	\$ 134,176	\$ 129,354	\$ 4,822
County extension	87,351	87,351	83,718	3,633
Agricultural society/fair grounds	41,200	41,200	53,685	(12,485)
Soil and water conservation	-	-	22,000	(22,000)
Local water plan block grant	70,078	70,078	61,557	8,521
Total conservation of natural resources	\$ 332,805	\$ 332,805	\$ 350,314	\$ (17,509)
Economic development				
Employment and training	\$ 71,711	\$ 71,711	\$ 70,964	\$ 747
Economic development	48,000	48,000	48,000	-
Total economic development	\$ 119,711	\$ 119,711	\$ 118,964	\$ 747

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

***EXHIBIT 7
(Continued)***

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (Continued)				
Capital outlay				
General government	\$ 81,000	\$ 81,000	\$ 27,286	\$ 53,714
Debt service				
Principal	\$ 85,571	\$ 85,571	\$ 114,455	\$ (28,884)
Interest	4,283	4,283	8,796	(4,513)
Total debt service	<u>\$ 89,854</u>	<u>\$ 89,854</u>	<u>\$ 123,251</u>	<u>\$ (33,397)</u>
Total Expenditures	<u>\$ 6,107,805</u>	<u>\$ 6,107,805</u>	<u>\$ 6,218,856</u>	<u>\$ (111,051)</u>
Excess of Revenues Over (Under)				
Expenditures	\$ (73,510)	\$ (73,510)	\$ 44,516	\$ 118,026
Other Financing Sources (Uses)				
Proceeds from loan	-	-	80,934	80,934
Net Change in Fund Balance	\$ (73,510)	\$ (73,510)	\$ 125,450	\$ 198,960
Fund Balance - January 1	<u>5,799,996</u>	<u>5,799,996</u>	<u>5,799,996</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 5,726,486</u></u>	<u><u>\$ 5,726,486</u></u>	<u><u>\$ 5,925,446</u></u>	<u><u>\$ 198,960</u></u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 8

**BUDGETARY COMPARISON STATEMENT
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,197,450	\$ 1,197,450	\$ 1,199,027	\$ 1,577
Intergovernmental	5,790,718	5,790,718	4,864,300	(926,418)
Charges for services	251,500	251,500	427,577	176,077
Investment earnings	1,500	1,500	-	(1,500)
Miscellaneous	277,500	277,500	118,522	(158,978)
Total Revenues	\$ 7,518,668	\$ 7,518,668	\$ 6,609,426	\$ (909,242)
Expenditures				
Current				
Highways and streets				
Administration	\$ 453,749	\$ 453,749	\$ 422,270	\$ 31,479
Maintenance	2,952,223	2,952,223	2,681,274	270,949
Construction	4,428,335	4,428,335	4,005,162	423,173
Equipment maintenance and shop	570,054	570,054	514,898	55,156
Other	803,200	803,200	504,680	298,520
Total highways and streets	\$ 9,207,561	\$ 9,207,561	\$ 8,128,284	\$ 1,079,277
Intergovernmental				
Highways and streets	210,000	210,000	216,118	(6,118)
Total Expenditures	\$ 9,417,561	\$ 9,417,561	\$ 8,344,402	\$ 1,073,159
Net Change in Fund Balance	\$ (1,898,893)	\$ (1,898,893)	\$ (1,734,976)	\$ 163,917
Fund Balance - January 1	3,983,146	3,983,146	3,983,146	-
Increase (decrease) in inventories	-	-	(92,303)	(92,303)
Fund Balance - December 31	\$ 2,084,253	\$ 2,084,253	\$ 2,155,867	\$ 71,614

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 9

**BUDGETARY COMPARISON STATEMENT
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,062,642	\$ 2,062,642	\$ 2,061,337	\$ (1,305)
Intergovernmental	2,742,807	2,742,807	2,723,221	(19,586)
Charges for services	427,400	427,400	305,852	(121,548)
Miscellaneous	171,350	171,350	212,542	41,192
Total Revenues	\$ 5,404,199	\$ 5,404,199	\$ 5,302,952	\$ (101,247)
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,064,528	\$ 1,064,528	\$ 1,055,107	\$ 9,421
Social services	3,744,544	3,744,544	3,543,398	201,146
Total human services	\$ 4,809,072	\$ 4,809,072	\$ 4,598,505	\$ 210,567
Health				
Community health services	595,127	595,127	599,067	(3,940)
Total Expenditures	\$ 5,404,199	\$ 5,404,199	\$ 5,197,572	\$ 206,627
Net Change in Fund Balance	\$ -	\$ -	\$ 105,380	\$ 105,380
Fund Balance - January 1	2,696,856	2,696,856	2,696,856	-
Fund Balance - December 31	\$ 2,696,856	\$ 2,696,856	\$ 2,802,236	\$ 105,380

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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, 2015**

<u>Assets</u>	
Cash and pooled investments	\$ 330,163
Accrued interest	<u>79</u>
Total Assets	<u><u>\$ 330,242</u></u>
 <u>Liabilities</u>	
Accounts payable	\$ 40,262
Due to other governments	<u>289,980</u>
Total Liabilities	<u><u>\$ 330,242</u></u>

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015**

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, 2015. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Joint Ventures

The County participates in joint ventures described in Note 6.B. The County also participates in jointly-governed organizations described in Note 6.C.

B. Basic Financial Statements

1. County-Wide Statements

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

In the county-wide statement of net position, the governmental activities 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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. County-Wide Statements (Continued)

three parts: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. The County first utilizes restricted resources to finance qualifying activities.

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

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

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

Additionally, the County reports the following fund types:

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

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

C. Measurement Focus and Basis of Accounting

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

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

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

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2015, 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 2015 were \$122,939.

Watonwan County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The investment in the pool is measured at the net position value per share provided by the pool.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

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

1. Deposits and Investments (Continued)

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

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

Investments of the County are reported at fair value.

2. Receivables and Payables

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

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

2. Receivables and Payables (Continued)

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

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

Special assessments receivable consist of delinquent special assessments payable in the years 2010 through 2015 and noncurrent special assessments payable in 2016 and after. Unpaid special assessments at December 31 are classified in the financial statements as delinquent special assessments.

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

3. Inventories

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Capital Assets

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

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

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

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

5. Compensated Absences

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. Long-Term Obligations

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

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

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. The County has one item, deferred pension outflows, which qualifies for reporting in this category. The deferred pension outflows consist of pension plan contributions paid subsequent to the measurement date, pension plan changes in proportionate share, and differences between projected and actual earnings on pension plan investments. No deferred outflows of resources affect the governmental funds financial statements in the current year.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has two types of items, unavailable revenue and deferred pension inflows, that qualify for reporting in this category. Unavailable revenue arises only under a modified accrual basis of accounting and, accordingly, is

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Deferred Outflows/Inflows of Resources (Continued)

reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred pension inflows arise only under an accrual basis of accounting and, accordingly, are reported only in the statement of net position. This amount consists of differences between expected and actual pension plan economic experience and also pension plan changes in proportionate share.

8. Pension Plan

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

9. Unearned Revenue

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

10. Classification of Net Position

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

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Classification of Net Position (Continued)

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

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

11. Classification of Fund Balances

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

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

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

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.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Classification of Fund Balances (Continued)

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

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

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

12. Use of Estimates

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

E. Change in Accounting Principles

During the year ended December 31, 2015, the County adopted new accounting guidance by implementing the provisions of GASB Statements 68, 71, and 82. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, requires governments providing defined benefit pensions to employees through pension plans administered through trusts to record their proportionate share of the net pension obligation as a liability on their financial statements along with related deferred outflows of resources, deferred inflows of resources, and pension expense. This statement also requires additional note disclosures and schedules in the required supplementary information.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, addresses an issue regarding amounts associated with contributions made to a pension plan after the measurement date of the net pension liability.

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statement No. 67, No. 68, and No. 73*, modifies the measure of payroll that is presented in the required supplementary information schedules.

GASB Statements 68 and 71 require the County to report its proportionate share of the PERA total employers' unfunded pension liability. As a result, beginning net position has been restated to record the County's net pension liability and related deferred outflows of resources.

	<u>Governmental Activities</u>
Net Position, January 1, 2015, as previously reported	\$ 57,799,488
Change in accounting principles	<u>(4,684,167)</u>
Net Position, January 1, 2015, as restated	<u>\$ 53,115,321</u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the County Ditch Special Revenue Fund. All annual appropriations lapse at year-end.

On or before mid-August of each year, all departments submit requests for appropriations to the County Auditor 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, 2015.

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 6,218,856	\$ 6,107,805	\$ 111,051
County Library Special Revenue Fund	641,394	613,161	28,233

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

2. Stewardship, Compliance, and Accountability (Continued)

C. Deficit Fund Equity - County Ditch Special Revenue Fund

On the full accrual basis of accounting, 4 of the 38 drainage systems have incurred expenses in excess of revenues and available resources. These deficits will be eliminated with future special assessment levies against benefited properties. The following summary shows the fund equity as of December 31, 2015, using the full accrual basis of accounting.

Account balances	\$ 241,054
Account balance deficit	<u>(1,172,380)</u>
Fund Equity - Full Accrual Basis	<u>\$ (931,326)</u>

Using the modified accrual basis of accounting, noncurrent receivables do not affect fund balance. Noncurrent receivables are deferred inflows of resources. Using this basis of accounting, 5 ditches had fund deficits.

Account balances	\$ 187,152
Account balance deficit	<u>(1,958,817)</u>
Fund Balance - Modified Accrual Basis	<u>\$ (1,771,665)</u>

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	\$ 9,958,911
Fiduciary funds	
Cash and pooled investments	
Agency funds	<u>330,163</u>
Total Cash and Investments	<u>\$ 10,289,074</u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

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 the County's policy to minimize custodial credit risk of deposits by making deposits with financial institutions as defined by Minn. Stat. § 118A.01, and by obtaining necessary documentation of perfected security interest in pledged collateral from the financial institutions. As of December 31, 2015, the County's deposits were not exposed to custodial credit risk.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

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, 2015, none of the County's investments were subject to custodial credit risk.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

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, 2015, all of the County's investment carrying value balance of \$53,366 was invested in the MAGIC Fund.

2. Receivables

Receivables as of December 31, 2015, for the County are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Taxes - delinquent	\$ 97,473	\$ -
Special assessments - delinquent	15,330	-
Special assessments - noncurrent	1,176,397	1,089,408
Accounts	321,790	-
Accrued interest	15,295	-
Due from other governments	1,333,628	87,000
Advance to other governments	908,232	689,667
	<hr/>	<hr/>
Total	\$ 3,868,145	\$ 1,866,075

**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, 2015, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 686,771	\$ -	\$ -	\$ 686,771
Construction in progress	<u>268,902</u>	<u>862,269</u>	<u>24,296</u>	<u>1,106,875</u>
Total capital assets not depreciated	<u>\$ 955,673</u>	<u>\$ 862,269</u>	<u>\$ 24,296</u>	<u>\$ 1,793,646</u>
Capital assets depreciated				
Buildings	\$ 8,864,924	\$ -	\$ -	\$ 8,864,924
Land improvements	180,253	-	-	180,253
Machinery, furniture, and equipment	6,342,503	195,285	142,008	6,395,780
Infrastructure	<u>56,351,074</u>	<u>4,600,037</u>	<u>-</u>	<u>60,951,111</u>
Total capital assets depreciated	<u>\$ 71,738,754</u>	<u>\$ 4,795,322</u>	<u>\$ 142,008</u>	<u>\$ 76,392,068</u>
Less: accumulated depreciation for				
Buildings	\$ 3,374,932	\$ 204,326	\$ -	\$ 3,579,258
Land improvements	35,193	9,013	-	44,206
Machinery, furniture, and equipment	4,216,822	321,134	142,008	4,395,948
Infrastructure	<u>18,158,742</u>	<u>1,186,042</u>	<u>-</u>	<u>19,344,784</u>
Total accumulated depreciation	<u>\$ 25,785,689</u>	<u>\$ 1,720,515</u>	<u>\$ 142,008</u>	<u>\$ 27,364,196</u>
Total capital assets depreciated, net	<u>\$ 45,953,065</u>	<u>\$ 3,074,807</u>	<u>\$ -</u>	<u>\$ 49,027,872</u>
Total Capital Assets, Net	<u>\$ 46,908,738</u>	<u>\$ 3,937,076</u>	<u>\$ 24,296</u>	<u>\$ 50,821,518</u>

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

General government	\$ 224,805
Public safety	100,988
Highways and streets, including depreciation of infrastructure assets	1,348,263
Sanitation	666
Human services	40,918
Culture and recreation	3,938
Conservation of natural resources	<u>937</u>
Total Depreciation Expense	<u>\$ 1,720,515</u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2015, is as follows:

Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General			Short-term loan to cover cost of ditch projects
	County Ditch	\$ 2,843,667	
	Human Services	<u>19,290</u>	Reimbursement for services
Total due to General Fund		<u>\$ 2,862,957</u>	
Road and Bridge			Fuel and reimbursement for services
	General	\$ 19,338	
	Human Services	<u>234</u>	Snow removal
Total due to Road and Bridge Fund		<u>\$ 19,572</u>	
Human Services			Shared expense for professional services
	General	\$ 12,058	
	Road and Bridge	<u>35</u>	Equipment maintenance
Total due to Human Services Fund		<u>\$ 12,093</u>	
County Ditch	Road and Bridge	<u>\$ 10,517</u>	Road maintenance
Total Due To/From Other Funds		<u><u>\$ 2,905,139</u></u>	

The interfund receivables and payables are expected to be paid within one year of December 31, 2015.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities and Deferred Inflows of Resources

1. Other Postemployment Benefits (OPEB)

Watonwan County provides postemployment health care benefits for retirees and elected officials. Within 60 days of the effective date of an elected County official's retirement or termination, the County shall contribute an amount equal to the annual premium for single health insurance coverage in effect at the time of termination or retirement for every four complete years of service, up to a maximum of five terms. As of December 31, 2015, the County recorded a liability of \$133,800 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 2014, there were approximately 140 participants in the plan, including 1 retiree. The implicit rate subsidy amount was determined by an actuarial study to be \$22,362 for 2015.

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 and Deferred Inflows of Resources

1. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

ARC	\$	80,246
Interest on net OPEB obligation		7,171
Adjustment to ARC		(10,295)
		(10,295)
Annual OPEB cost (expense)	\$	77,122
Contributions made		(22,362)
		(22,362)
Increase (decrease) in net OPEB obligation	\$	54,760
Net OPEB obligation - January 1		159,362
		159,362
Net OPEB obligation - December 31	\$	214,122

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, 2013, 2014, and 2015, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contributions	Percentage Contributed	Net OPEB Obligations
December 31, 2013	\$ 63,231	\$ 91,378	144.5%	\$ 109,094
December 31, 2014	78,115	27,847	35.6	159,362
December 31, 2015	77,122	22,362	29.0	214,122

Funded Status and Funding Progress

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

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, 2014, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of investment expenses), which is Watonwan County's implicit rate of return on the General Fund. The annual health care cost trend is 7.5 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 10 years. Both rates included a 2.5 percent inflation assumption. The UAAL is being amortized over 30 years as a level dollar on a closed basis. The remaining amortization period at December 31, 2015, was 22 years.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

2. Construction Commitments

The County has active construction projects as of December 31, 2015. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Ditch projects	\$ 2,694,191	\$ 53,699
Highway projects	20,405	2,011,613

3. Long-Term Debt

Bonds

Type of Indebtedness	Final Maturity	Installment Amount	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2015
G.O. Capital Improvement Refunding Bonds, Series 2010A	2021	\$160,000 - \$180,000	1.70 - 3.00	\$ 1,650,000	\$ 1,030,000
G.O. Capital Notes, Series 2011	2016	\$40,000	1.95	200,000	40,000
G.O. Capital Improvement Crossover Refunding Bonds, Series 2012A	2026	\$50,000 - \$55,000	1.55 - 2.60	625,000	575,000
G.O. Capital Improvement Plan Bonds, Series 2013A	2034	\$60,000 - \$90,000	2.00 - 4.00	1,420,000	1,370,000
G.O. Capital Notes, Series 2014	2021	\$65,000 - \$75,000	2.29	515,000	440,000
Total				\$ 4,410,000	\$ 3,455,000
Plus: unamortized premium					26,888
Less: unamortized discount					(11,817)
Total General Obligation Bonds, Net					\$ 3,470,071

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

3. Long-Term Debt (Continued)

Loans Payable

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

Type of Indebtedness	Final Maturity	Installment Amount	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2015
Watonwan Watershed Continuation Clean Water Partnership Project, SRF0108	2017	\$28,212	2.00	\$ 541,173	\$ 96,878
Greater Blue Earth and Des Moines River Clean Water Partnership Project, SRF0221	2024	\$17,225	2.00	310,831	250,462
Watonwan Ag Best Management Loan Program	2025	\$2,849 - \$16,928	-	<u>228,980</u>	<u>153,924</u>
Total Loans				<u>\$ 1,080,984</u>	<u>\$ 501,264</u>

4. Debt Service Requirements

Debt service requirements at December 31, 2015, were as follows:

Year Ending December 31	General Obligation Bonds		Capital Notes	
	Principal	Interest	Principal	Interest
2016	\$ 270,000	\$ 80,815	\$ 115,000	\$ 10,858
2017	275,000	75,717	75,000	8,359
2018	280,000	70,138	75,000	6,641
2019	285,000	63,933	75,000	4,924
2020	290,000	56,908	75,000	3,206
2021 - 2025	785,000	201,858	65,000	1,489
2026 - 2030	445,000	109,714	-	-
2031 - 2034	345,000	28,300	-	-
Total	<u>\$ 2,975,000</u>	<u>\$ 687,383</u>	<u>\$ 480,000</u>	<u>\$ 35,477</u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

4. Debt Service Requirements (Continued)

<u>Year Ending December 31</u>	<u>Loans Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 103,485	\$ 7,146
2017	97,415	5,464
2018	48,236	4,029
2019	49,385	3,417
2020	50,608	2,793
2021 - 2025	<u>152,135</u>	<u>4,682</u>
Total	<u>\$ 501,264</u>	<u>\$ 27,531</u>

Debt Refunding

On June 12, 2012, the County issued \$625,000 of General Obligation Capital Improvement Crossover Refunding Bonds, Series 2012A, with an average interest rate of 2.16 percent to refund \$580,000 of the General Obligation Capital Improvement Bonds, Series 2005, with an average interest rate of 4.20 percent. The refunding of the Series 2005 bonds was conducted by means of a crossover refunding mechanism. The County made 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 obtained 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 and Deferred Inflows of Resources (Continued)

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
G.O. Capital Improvement Refunding Bonds, Series 2010A	\$ 1,190,000	\$ -	\$ 160,000	\$ 1,030,000	\$ 160,000
G.O. Capital Notes, Series 2011	80,000	-	40,000	40,000	40,000
G.O. Capital Improvement Crossover Refunding Bonds, Series 2012A	625,000	-	50,000	575,000	50,000
G.O. Capital Improvement Plan Bonds, Series 2013A	1,420,000	-	50,000	1,370,000	60,000
G.O. Capital Notes, Series 2014	515,000	-	75,000	440,000	75,000
Plus: unamortized premium on bonds	28,501	-	1,613	26,888	-
Less: unamortized discount on bonds	(14,138)	-	(2,321)	(11,817)	-
Total bonds payable	\$ 3,844,363	\$ -	\$ 374,292	\$ 3,470,071	\$ 385,000
Loans payable	534,785	80,934	114,455	501,264	103,485
Compensated absences	840,155	735,923	761,114	814,964	495,692
Total Long-Term Liabilities	<u>\$ 5,219,303</u>	<u>\$ 816,857</u>	<u>\$ 1,249,861</u>	<u>\$ 4,786,299</u>	<u>\$ 984,177</u>

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

6. Unearned Revenue/Deferred Inflows of Resources

Unearned revenue and deferred inflows of resources as of December 31, 2015, for the County's governmental funds are as follows:

	Unearned Revenue	Deferred Inflows of Resources
Unavailable revenue		
Taxes and special assessments, prior and noncurrent	\$ -	\$ 1,252,101
Highway allotments that do not provide current financial resources	-	540,182
Charges for services and reimbursements	-	226,116
Grants	109,086	-
Total Governmental Funds	\$ 109,086	\$ 2,018,399

D. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$490,000 per claim in 2015 and \$500,000 per claim in 2016. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

D. Risk Management (Continued)

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

E. Library Endowment

The County Board has restricted certain donations to an endowment account that exists in the County Library Special Revenue Fund. The County Board allows the library endowment to be spent on certain library expenses approved by the Endowment Committee. For 2015, the County had a net investment gain of \$5,493. The County reported the related net position as restricted in the Statement of Net Position. The Library Director is authorized to spend the amount available for spending through the County's regular claim approval process.

4. Pension Plans

A. Defined Benefit Pension Plans

1. Plan Description

All full-time and certain part-time employees of Watonwan County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement 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. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

1. Plan Description (Continued)

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

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

2. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual 1.0 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Fund Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. 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.

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

3. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in 2015. Public Employees Police and

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

3. Contributions (Continued)

Fire Fund members were required to contribute 10.80 percent of their annual covered salary in 2015. Public Employees Correctional Fund members were required to contribute 5.83 percent of their annual covered salary in 2015.

In 2015, the County was required to contribute the following percentages of annual covered salary:

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

The General Employees Retirement Fund Coordinated Plan member and employer contribution rates each reflect a 0.25 percent increase from 2014. The Public Employees Police and Fire Fund member and employer contribution rates increased 0.60 percent and 0.90 percent, respectively, from 2014.

The County's contributions for the year ended December 31, 2015, to the pension plans were:

General Employees Retirement Fund	\$ 381,729
Public Employees Police and Fire Fund	82,737
Public Employees Correctional Fund	23,436

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans (Continued)

4. Pension Costs

General Employees Retirement Fund

At December 31, 2015, the County reported a liability of \$4,446,601 for its proportionate share of the General Employees Retirement Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.0858 percent. It was 0.0935 percent measured as of June 30, 2014. The County recognized pension expense of \$502,294 for its proportionate share of the General Employees Retirement Fund's pension expense.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 224,184
Difference between projected and actual investment earnings	420,939	-
Changes in proportion	-	271,281
Contributions paid to PERA subsequent to the measurement date	205,658	-
Total	\$ 626,597	\$ 495,465

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Fund (Continued)

A total of \$205,658 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2016	\$ (59,920)
2017	(59,920)
2018	(59,920)
2019	105,235

Public Employees Police and Fire Fund

At December 31, 2015, the County reported a liability of \$602,204 for its proportionate share of the Public Employees Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.053 percent. It was 0.049 percent measured as of June 30, 2014. The County recognized pension expense of \$110,974 for its proportionate share of the Public Employees Police and Fire Fund's pension expense.

The County also recognized \$4,770 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Public Employees Police and Fire Fund. Legislation requires the State of Minnesota to contribute \$9 million to the Public Employees Police and Fire Fund each year, starting in fiscal year 2014, until the plan is 90 percent funded.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Fund (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 97,658
Difference between projected and actual investment earnings	104,924	-
Changes in proportion	36,001	-
Contributions paid to PERA subsequent to the measurement date	45,576	-
Total	\$ 186,501	\$ 97,658

A total of \$45,576 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2016	\$ 13,900
2017	13,900
2018	13,900
2019	13,900
2020	(12,331)

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Correctional Fund

At December 31, 2015, the County reported a liability of \$23,190 for its proportionate share of the Public Employees Correctional Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.15 percent. It was 0.15 percent measured as of June 30, 2014. The County recognized pension expense of \$25,026 for its proportionate share of the Public Employees Correctional Fund's pension expense.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 8,879
Difference between projected and actual investment earnings	19,331	-
Contributions paid to PERA subsequent to the measurement date	12,836	-
Total	\$ 32,167	\$ 8,879

A total of \$12,836 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Correctional Fund (Continued)

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2016	\$ 1,873
2017	1,873
2018	1,873
2019	4,833

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2015, was \$638,294.

5. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the individual entry age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.75 percent per year
Active member payroll growth	3.50 percent per year
Investment rate of return	7.90 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Fund and the Public Employees Police and Fire Fund, cost of living benefit increases for retirees are assumed to be 1.0 percent effective every January 1 through 2035 and 2037, respectively, and 2.5 percent thereafter. Cost of living benefit increases for retirees are assumed to be 2.5 percent for all years for the Public Employees Correctional Fund.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Fund was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. The experience study for the Public Employees Police and Fire Fund was for the period July 1, 2004, through June 30, 2009. The experience study for the Public Employees Correctional Fund was for the period July 1, 2006, through June 30, 2011.

In 2015, an updated experience study was done for PERA's General Employees Retirement Fund for the six-year period ending June 30, 2014, which would result in a larger pension liability. However, PERA will not implement the changes in assumptions until its June 30, 2016, estimate of pension liability.

The long-term expected rate of return on pension plan investments is 7.9 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans (Continued)

6. Discount Rate

The discount rate used to measure the total pension liability was 7.9 percent. The discount rate did not change since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

7. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Proportionate share of the General Employees Retirement Fund net pension liability	\$ 6,991,638	\$ 4,446,601	\$ 2,344,792
Public Employees Police and Fire Fund net pension liability	1,173,702	602,204	130,047
Public Employees Correctional Fund net pension liability (asset)	161,499	23,190	(87,513)

8. Pension Plan Fiduciary Net Position

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Pension Plans (Continued)

B. Defined Contribution Plan

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by Watonwan County during the year ended December 31, 2015, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 4,883	\$ 4,883
Percentage of covered payroll	5%	5%

5. Conduit Debt

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

The outstanding principal balance for the G.O. Water Revenue Refunding Bonds, Series 2009, on December 31, 2015, was \$1,250,000. The payments and balances of the outstanding indebtedness for the water revenue and refunding bonds issued by Watonwan County on behalf of RRRWS have been reflected in the financial statements of the RRRWS and, accordingly, are only mentioned in this note accompanying the financial statements of Watonwan County.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

5. Conduit Debt (Continued)

On June 1, 2016, the County issued \$1,155,000 of G.O. Water Revenue Crossover Refunding Bonds, Series 2016A, on behalf of the RRRWS. This bond issue will be used to retire the outstanding bonds from the RRRWS \$1,600,000 G.O. Water Revenue Refunding Bonds, Series 2009, which were used to refund the original issue of \$1,765,000 G.O. Water Revenue Bonds, Series 2002. The RRRWS is responsible for the payment of all costs, principal, and interest relating to this bond issue through special assessments on the properties being serviced or the net revenues of the water system. The County is not obligated in any manner for the repayment of the bonds.

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

B. Joint Ventures

Minnesota River Valley Drug Task Force

The Minnesota River Valley Drug Task Force became operative on February 1, 1990, pursuant to Minn. Stat. § 471.59. The primary responsibility of the Task Force is to detect, investigate, gather evidence, and apprehend drug traffickers, as well as assist in violent crimes and gang-related investigation within the geographic boundaries of the communities that comprise the Task Force. The Task Force communities include the following jurisdictions: Cities of Mankato, North Mankato, St. James, St. Peter, and Madelia, and the Counties of Blue Earth, Martin, Nicollet, and Watonwan. The Task Force is governed by a Board of Directors consisting of the Chief of Police or Sheriff of

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Minnesota River Valley Drug Task Force (Continued)

each participating governmental unit or their designee. Funding is provided from the members and the sale of seized/forfeited properties. During the year, the County contributed \$11,935 to the Task Force.

Red Rock Rural Water System

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

The governing body is composed of nine members appointed to three-year terms by the District Court. Each county is responsible for levying and collecting the special assessments from the benefited properties within the county. The bond issue and notes payable are shown as long-term debt in the financial statements of the Red Rock Rural Water System.

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

South Central Minnesota Regional Emergency Communications Board

The South Central Minnesota Regional Emergency Communications Board (formally known as the South Central Minnesota Regional Radio Board) was established pursuant to Minn. Stat. §§ 471.59 and 403.39 and a joint powers agreement effective May 27, 2008. It is comprised of Blue Earth, Brown, Faribault, Le Sueur, Martin, McLeod, Nicollet, Sibley, Waseca, and Watonwan Counties, and the Cities of Hutchinson and Mankato. The primary function of the joint venture is to provide regional administration of enhancements to the Statewide Public Safety Radio and Communication System for the Allied Radio Matrix for Emergency Response (ARMER), owned and operated by the State of Minnesota, and to enhance and improve interoperable public safety communications.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

South Central Minnesota Regional Emergency Communications Board (Continued)

The Board consists of one County Commissioner from each county included in the agreement, one City Council member from each city included in the agreement, a member of the South Central Minnesota Regional Advisory Committee, a member of the South Central Minnesota Regional Radio System User Committee, and a member of the Owners and Operators Committee.

Blue Earth County acts as the fiscal agent for the Communications Board. During 2015, the County made no contributions to the Communications Board. The Chair of the Board is Kip Bruender, and the address is P. O. Box 8608, Mankato, Minnesota 56002-8608.

South Central Workforce Service Area Joint Powers Board

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

Watonwan County made no contributions to this organization in 2015.

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

Three Counties for Kids Collaborative

The Three Counties for Kids Collaborative was established in 1996 under the authority of Minn. Stat. § 471.59. The Collaborative includes Brown, Sibley, and Watonwan Counties; River Bend Education District; and Sioux Trails Mental Health Center. The purpose of the Collaborative is to join local units of government together to ensure a unified, unduplicated, and family-friendly system of intervention and care for families and children. The Collaborative provides improved coordination for children and families through information sharing, elimination of duplicate services, and cooperative efforts. The Collaborative funds selected projects and services that support intervention and the prevention of out-of-home placement of children at risk.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Three Counties for Kids Collaborative (Continued)

The Collaborative is financed by Local Collaborative Time Study (LCTS) funds and program reimbursements. Control of the Collaborative is vested in a Board of Directors consisting of seven members. Brown County Family Services acts as fiscal agent for the Collaborative. During 2015, Watonwan County made \$16,315 in contributions to the Collaborative.

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

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

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 2015, Watonwan County made contributions of \$25,000 to the Collaborative. Any withdrawing party remains fiscally liable until the effective date of withdrawal. Should the Collaborative cease to exist, all property, real and personal, held by the Joint Powers Board at the time of the termination shall be distributed by resolution of the Board in accordance with law and in a manner to best accomplish the purpose of the Collaborative.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Rural Minnesota Energy Board

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

The governing body is composed of one voting member and one alternate member from each participating county's Board of Commissioners. The Board shall remain in existence as long as two or more counties remain parties to the agreement. Should the Board cease to exist, assets shall be liquidated after payment of liabilities, based upon the ratios set out under the equal and proportionate share articles of the agreement. During the year, Watonwan County paid \$1,000 to the Board.

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

C. Jointly-Governed Organizations

Greater Blue Earth River Basin Alliance

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Region Five - Southwest Minnesota Homeland Security Emergency Management Organization

The Region Five - Southwest Minnesota Homeland Security Emergency Management Organization was established to provide for regional coordination of planning, training, purchase of equipment, and allocating emergency services and staff in order to better respond to emergencies and natural or other disasters within the region. Control is vested in the Board, which is composed of representatives appointed by each Board of County Commissioners. Watonwan County's responsibility does not extend beyond making this appointment. During the year, the County paid \$15 in membership fees.

Minnesota Counties Computer Cooperative

The Minnesota Counties Computer Cooperative (MCCC) provides computer programming services for the County. During the year, the County purchased \$83,199 in services from MCCC.

Minnesota Criminal Justice Data Communications Network

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

South Central Community-Based Initiative

The South Central Community-Based Initiative Joint Powers Board was established pursuant to Minn. Stat. §§ 471.59 and 245.4661 and a joint powers agreement effective June 20, 2008. The purpose of this joint powers agreement is to provide services to persons with mental illness in the most clinically-appropriate, person-centered, least restrictive, and cost effective ways. The focus is on improved access and outcomes for persons with mental illness as a result of the collaboration between state-operated services programs and community-based treatment. The membership of the Board is

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations

South Central Community-Based Initiative (Continued)

comprised of one representative appointed by Blue Earth, Brown, Faribault, Freeborn, Le Sueur, Martin, Nicollet, Rice, Sibley, and Watonwan Counties. The County did not contribute to the Joint Powers Board in 2015.

South Central Emergency Medical Service

The South Central Emergency Medical Service (SCEMS) Joint Powers Board consists of Blue Earth, Brown, Faribault, Le Sueur, Martin, Nicollet, Sibley, Waseca, and Watonwan Counties. The purpose of SCEMS is to ensure quality patient care is available throughout the nine-county area by maximizing the response capabilities of emergency medical personnel and to promote public education on injury prevention and appropriate response during a medical emergency. Each county appoints one member for the Joint Powers Board. The County did not contribute to SCEMS in 2015.

South Central Regional IMMTRACK Joint Powers Board

The South Central Regional IMMTRACK (immunization registry) Joint Powers Board promotes an implementation and maintenance of a regional immunization information system to ensure age-appropriate immunizations through complete and accurate records. During the year, the County made payments of \$3,156 to IMMTRACK.

Three Rivers Resource Conservation & Development

The Three Rivers Resource Conservation & Development (RC&D) is a locally initiated, sponsored, and directed organization that works to enhance the quality of life by improving the economic, social, and environmental conditions within the area. The RC&D is led locally by Soil and Water Conservation District Supervisors and County Commissioners from the nine-county area that is served by the council. The County did not contribute to the RC&D during 2015.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

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

D. Special Benefit Tax Levy

In 1993, the South Central Minnesota Multi-County Housing Authority issued \$20,315,000 of revenue bonds to construct housing units in Watonwan County and four surrounding counties. The Authority has since defaulted on these bonds. In 2000, the counties entered into a settlement agreement where each of the counties will approve a special benefit tax levy on behalf of the Authority from 2001 through 2024 to cover the operating deficits based on each county's proportionate share of housing units constructed. Watonwan County's proportionate share of the operating deficit for 2015 is \$91,751. The proportionate share of the counties may change for years 2016 through 2024 if there are changes in the taxable market value over the 2001 taxable market value; however, the County's share may not increase by the lesser of two percent or the increase over the 2001 taxable market value.

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REQUIRED SUPPLEMENTARY INFORMATION

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT A-1

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2015**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2008	\$ -	\$ 483,308	\$ 483,308	0.0%	\$ 5,006,800	9.7%
January 1, 2011	-	445,548	445,548	0.0	5,302,315	8.4
January 1, 2014	-	525,973	525,973	0.0	5,577,965	9.4

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT A-2

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2015**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0858%	\$ 4,446,601	\$ 5,051,691	88.02%	78.20%

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT A-3

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2015**

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

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT A-4

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES POLICE AND FIRE FUND
DECEMBER 31, 2015**

<u>Measurement Date</u>	<u>Employer's Proportion of the Net Pension Liability (Asset)</u>	<u>Employer's Proportionate Share of the Net Pension Liability (Asset) (a)</u>	<u>Covered Payroll (b)</u>	<u>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
2015	0.053%	\$ 602,204	\$ 489,030	123.14%	86.60%

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT A-5

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES POLICE AND FIRE FUND
DECEMBER 31, 2015**

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

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT A-6

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES CORRECTIONAL FUND
DECEMBER 31, 2015**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.15%	\$ 23,190	\$ 267,504	8.67%	96.90%

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT A-7

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES CORRECTIONAL FUND
DECEMBER 31, 2015**

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

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

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, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 464,604	\$ 464,604	\$ 463,853	\$ (751)
Intergovernmental	31,263	31,263	31,264	1
Total Revenues	\$ 495,867	\$ 495,867	\$ 495,117	\$ (750)
Expenditures				
Debt service				
Principal	\$ 375,000	\$ 375,000	\$ 375,000	\$ -
Interest	98,669	98,669	98,669	-
Administrative charges	2,175	2,175	1,920	255
Total Expenditures	\$ 475,844	\$ 475,844	\$ 475,589	\$ 255
Net Change in Fund Balance	\$ 20,023	\$ 20,023	\$ 19,528	\$ (495)
Fund Balance - January 1	470,326	470,326	470,326	-
Fund Balance - December 31	\$ 490,349	\$ 490,349	\$ 489,854	\$ (495)

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

OTHER GOVERNMENTAL FUNDS

NONMAJOR SPECIAL REVENUE FUNDS

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

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

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT C-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	Special Revenue Funds		Total
	County Library	Solid Waste	
<u>Assets</u>			
Cash and pooled investments	\$ 957,506	\$ 440,981	\$ 1,398,487
Taxes receivable - delinquent	6,766	161	6,927
Special assessments receivable - delinquent	-	14,436	14,436
Accrued interest receivable	1,013	-	1,013
Total Assets	\$ 965,285	\$ 455,578	\$ 1,420,863
 <u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 461	\$ -	\$ 461
Salaries payable	10,055	41	10,096
Total Liabilities	\$ 10,516	\$ 41	\$ 10,557
Deferred Inflows of Resources			
Unavailable revenue	\$ 4,985	\$ 10,627	\$ 15,612
Fund Balances			
Restricted for donations - library	\$ 435,300	\$ -	\$ 435,300
Committed for library operations	514,484	-	514,484
Assigned to solid waste	-	444,910	444,910
Total Fund Balances	\$ 949,784	\$ 444,910	\$ 1,394,694
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 965,285	\$ 455,578	\$ 1,420,863

**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, 2015**

	<u>Special Revenue Funds</u>		<u>Total</u>
	<u>County Library</u>	<u>Solid Waste</u>	
Revenues			
Taxes	\$ 568,721	\$ 13,435	\$ 582,156
Special assessments	-	172,404	172,404
Intergovernmental	49,800	70,388	120,188
Charges for services	4,029	-	4,029
Fines and forfeits	7,446	-	7,446
Gifts and contributions	3,960	-	3,960
Investment earnings	6,629	-	6,629
Miscellaneous	87	12,304	12,391
Total Revenues	\$ 640,672	\$ 268,531	\$ 909,203
Expenditures			
Current			
Sanitation	\$ -	\$ 222,833	\$ 222,833
Culture and recreation	641,394	-	641,394
Total Expenditures	\$ 641,394	\$ 222,833	\$ 864,227
Net Change in Fund Balances	\$ (722)	\$ 45,698	\$ 44,976
Fund Balances - January 1	950,506	399,212	1,349,718
Fund Balances - December 31	\$ 949,784	\$ 444,910	\$ 1,394,694

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT C-3

**BUDGETARY COMPARISON SCHEDULE
COUNTY LIBRARY SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 569,141	\$ 569,141	\$ 568,721	\$ (420)
Intergovernmental	30,220	30,220	49,800	19,580
Charges for services	3,200	3,200	4,029	829
Fines and forfeits	9,600	9,600	7,446	(2,154)
Gifts and contributions	-	-	3,960	3,960
Investment earnings	1,000	1,000	6,629	5,629
Miscellaneous	-	-	87	87
Total Revenues	<u>\$ 613,161</u>	<u>\$ 613,161</u>	<u>\$ 640,672</u>	<u>\$ 27,511</u>
Expenditures				
Current				
Culture and recreation				
County library	\$ 613,161	\$ 613,161	\$ 625,453	\$ (12,292)
Library endowment	-	-	15,941	(15,941)
Total Expenditures	<u>\$ 613,161</u>	<u>\$ 613,161</u>	<u>\$ 641,394</u>	<u>\$ (28,233)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (722)</u>	<u>\$ (722)</u>
Fund Balance - January 1	<u>950,506</u>	<u>950,506</u>	<u>950,506</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 950,506</u></u>	<u><u>\$ 950,506</u></u>	<u><u>\$ 949,784</u></u>	<u><u>\$ (722)</u></u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT C-4

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 13,291	\$ 13,291	\$ 13,435	\$ 144
Special assessments	190,625	190,625	172,404	(18,221)
Intergovernmental	56,647	56,647	70,388	13,741
Miscellaneous	13,700	13,700	12,304	(1,396)
Total Revenues	\$ 274,263	\$ 274,263	\$ 268,531	\$ (5,732)
Expenditures				
Current				
Sanitation				
SCORE	235,600	235,600	222,833	12,767
Net Change in Fund Balance	\$ 38,663	\$ 38,663	\$ 45,698	\$ 7,035
Fund Balance - January 1	399,212	399,212	399,212	-
Fund Balance - December 31	\$ 437,875	\$ 437,875	\$ 444,910	\$ 7,035

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

AGENCY FUNDS

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

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

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

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

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

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT D-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Balance January 1	Additions	Deductions	Balance December 31
<u>AGENCY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>56,255</u>	\$ <u>2,032,135</u>	\$ <u>2,049,222</u>	\$ <u>39,168</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>56,255</u>	\$ <u>2,032,135</u>	\$ <u>2,049,222</u>	\$ <u>39,168</u>
 <u>VISION FOR FAMILY AND COMMUNITY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>3,127</u>	\$ <u>128,749</u>	\$ <u>131,876</u>	\$ <u>-</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>3,127</u>	\$ <u>128,749</u>	\$ <u>131,876</u>	\$ <u>-</u>
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>187,363</u>	\$ <u>16,352,332</u>	\$ <u>16,348,111</u>	\$ <u>191,584</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>187,363</u>	\$ <u>16,352,332</u>	\$ <u>16,348,111</u>	\$ <u>191,584</u>

**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, 2015**

	Balance January 1	Additions	Deductions	Balance December 31
<u>CEMETERY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 35,586	\$ 4,824	\$ 227	\$ 40,183
Accrued interest	52	79	52	79
Total Assets	\$ 35,638	\$ 4,903	\$ 279	\$ 40,262
<u>Liabilities</u>				
Accounts payable	\$ 35,638	\$ 4,903	\$ 279	\$ 40,262
 <u>SOIL AND WATER CONSERVATION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 64,691	\$ 101,339	\$ 106,802	\$ 59,228
<u>Liabilities</u>				
Due to other governments	\$ 64,691	\$ 101,339	\$ 106,802	\$ 59,228
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 347,022	\$ 18,619,379	\$ 18,636,238	\$ 330,163
Accrued interest	52	79	52	79
Total Assets	\$ 347,074	\$ 18,619,458	\$ 18,636,290	\$ 330,242
<u>Liabilities</u>				
Accounts payable	\$ 35,638	\$ 4,903	\$ 279	\$ 40,262
Due to other governments	311,436	18,614,555	18,636,011	289,980
Total Liabilities	\$ 347,074	\$ 18,619,458	\$ 18,636,290	\$ 330,242

OTHER SCHEDULES

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT E-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2015**

Appropriations and Shared Revenue

State

Aquatic invasive species prevention aid	\$ 34,172
County program aid	197,258
Disparity reduction aid	5,064
Enhanced 911	82,761
Highway users tax	4,246,267
Market value credit	221,208
PERA rate reimbursement	19,906
Police aid	57,159
SCORE	69,692

Total appropriations and shared revenue **\$ 4,933,487**

Reimbursement for Services

State

Minnesota Department of Human Services	<u>\$ 436,053</u>
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Payments

Local

Local contributions	<u>\$ 19,588</u>
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Grants

State

Minnesota Department/Board of	
Corrections	\$ 41,027
Education	13,749
Health	69,913
Human Services	898,355
Natural Resources	48,626
Transportation	138,800
Veterans Affairs	15,000
Water and Soil Resources	59,849

Total state **\$ 1,285,319**

Federal

Department/Institute of	
Agriculture	\$ 193,525
Health and Human Services	1,094,694
Homeland Security	17,574
Museum and Library Services	4,831
Transportation	622,565

Total federal **\$ 1,933,189**

Total state and federal grants **\$ 3,218,508**

Total Intergovernmental Revenue **\$ 8,607,636**

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT E-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Agriculture			
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	16162MN004W1003	\$ 80,447
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	16162MN101S2514	112,873
Passed Through Minnesota Department of Agriculture WIC Farmers' Market Nutrition Program (FMNP)	10.572	16162MN004W1003	<u>205</u>
Total U.S. Department of Agriculture			<u>\$ 193,525</u>
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	00083	\$ 560,821
Formula Grants for Rural Areas	20.509	AGR#07208	<u>61,744</u>
Total U.S. Department of Transportation			<u>\$ 622,565</u>
U.S. Institute of Museum and Library Services			
Passed Through Minnesota Department of Education Grants to States	45.310	2015-00179	<u>\$ 4,831</u>
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Health Public Health Emergency Preparedness	93.069	U90TP000529	\$ 26,281
Temporary Assistance for Needy Families (TANF) (Total TANF 93.558 - \$99,693)	93.558	2015G996115	13,846
Maternal and Child Health Services Block Grant to the States	93.994	6B04MC29349-01-03	19,854
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	1501MNFPS	455
Temporary Assistance for Needy Families (TANF) (Total TANF 93.558 - \$99,693)	93.558	1601MNTANF	85,847
Child Support Enforcement	93.563	1504MNCSES	20,512
Child Support Enforcement (Total Child Support Enforcement 93.563 - \$232,864)	93.563	1604MNCES	212,352
Refugee and Entrant Assistance - State-Administered Programs	93.566	1601MNRCA	164
Child Care and Development Block Grant	93.575	G1601MNCDF	2,998
Community-Based Child Abuse Prevention Grants	93.590	1402MNFPG	6,880
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1501MNCWSS	300
Foster Care - Title IV-E	93.658	1601MNFOST	142,919

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**EXHIBIT E-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Human Services (Continued)			
Social Services Block Grant	93.667	1501MNSOSR	78,814
Chafee Foster Care Independence Program	93.674	1501MNCILP	18,838
Children's Health Insurance Program	93.767	1605MN5021	47
Medical Assistance Program	93.778	05-1605MN5ADM	455,993
Medical Assistance Program	93.778	05-1605MN5MAP	8,594
(Total Medical Assistance Program 93.778 - \$464,587)			<hr/>
Total U.S. Department of Health and Human Services			<u>\$ 1,094,694</u>
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Public Safety			
Hazard Mitigation Grant	97.039	P07204009HM	\$ 695
Emergency Management Performance Grants	97.042	P072015EMPG	<hr/> 16,879
Total U.S. Department of Homeland Security			<u>\$ 17,574</u>
Total Federal Awards			<u><u>\$ 1,933,189</u></u>

The County did not pass any federal awards through to subrecipients during the year ended December 31, 2015.

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

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, 2015. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Watonwan County, it is not intended to and does not present the financial position or changes in net position of Watonwan County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Watonwan County has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles: **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? **None reported**

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

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

The major federal programs are:

Highway Planning and Construction	CFDA No. 20.205
Medical Assistance Program	CFDA No. 93.778

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2014-001

Audit Adjustments

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

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

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

Effect: The following audit adjustments were necessary to be recorded for December 31, 2015:

- County Ditch Special Revenue Fund special assessments of \$359,520 were reclassified from miscellaneous revenue for the 2015 County assessment received relating to the project on Joint Ditch No. 2.
- Miscellaneous revenue of \$213,552 in the County Ditch Special Revenue Fund was reclassified as a reduction of expenditures for billings and reimbursements received from other counties for their portion of ditch projects.
- Highway User Tax (\$515,882) and Federal Disaster Grant Revenue (\$44,939) were reclassified to Highway Planning and Construction Federal Grant in the Road and Bridge Special Revenue Fund to record the proper grant classification for statement presentation.

Cause: The County informed us that the activity in the County Ditch Special Revenue Fund was misclassified due to the uniqueness of the joint ditch project. The federal grant in the Road and Bridge Special Revenue Fund was miscoded when receipted into the accounting system.

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

Client's Response:

We will cross review our work on the financial statements for adjusting entries impact. The Road and Bridge accounts will be renamed to insure that receipts are properly posted.

PREVIOUSLY REPORTED ITEM RESOLVED

Inventory Records (2012-001)

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

Resolution

No significant inventory adjustments were noted during the current year audit, which indicates inventory is accurately being accounted for throughout the year.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

County Ditch Fund Deficit Balances (2009-001)

Drainage system costs are required by Minn. Stat. § 103E.655 to be paid from the ditch system account for which the costs are being incurred. If money is not available in the drainage system account on which the warrant is drawn, this statute allows for loans to be made from ditch systems with surplus funds or from the General Fund to a ditch system with insufficient cash to pay expenditures. Four County ditches had negative cash balances at December 31, 2014, totaling \$169,313.

Resolution

None of the individual ditch systems had deficit cash balances at December 31, 2015.

B. MANAGEMENT PRACTICES

ITEM ARISING THIS YEAR

Finding 2015-001

Ditch Fund Deficit Balances

Criteria: Each individual ditch system should maintain positive balances to meet its financial obligations.

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

Context: As of December 31, 2015, four County ditches had fund deficit balances totaling \$1,172,380.

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

Cause: The County indicated that necessary maintenance and construction costs on the ditch systems were made during the year, and assessments to cover the costs were not approved before year-end.

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

Client's Response:

The majority of the ditch fund deficit balance (\$1,161,640) is J.D. #13. There is currently an improvement project under construction on J.D. #13 which will be completed in 2016. The construction costs are being funded by funds from the General Fund. Upon completion, assessments will be collected or liens filed for the costs incurred for the improvement which will eliminate the deficit. The other three funds, with a total of \$10,740, were systems that had incurred maintenance costs for which assessments were levied in 2016 which will eliminate these deficits.



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

Independent Auditor's Report

Board of County Commissioners
Watonwan County
St. James, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Watonwan County, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated July 7, 2016.

Internal Control Over Financial Reporting

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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001, that we consider to be a significant deficiency.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

In connection with our audit, nothing came to our attention that caused us to believe that Watonwan County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties*. 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

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

Watonwan County's Response to Findings

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

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 7, 2016

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

Independent Auditor's Report

Board of County Commissioners
Watonwan County
St. James, Minnesota

Report on Compliance for 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) *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, 2015. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Watonwan County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for 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, 2015.

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 an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 7, 2016