

STATE OF MINNESOTA

Office of the State Auditor



**Rebecca Otto
State Auditor**

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

YEAR ENDED DECEMBER 31, 2017

Description of the Office of the State Auditor

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

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

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

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

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

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

Pension - monitors investment, financial, and actuarial reporting for approximately 650 public pension funds; and

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

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

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

Year Ended December 31, 2017



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

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

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Introductory Section

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**ORGANIZATION
2017**

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Commissioners		
1st District	Raymond Gustafson	January 2021
2nd District	Keith Brekken*	January 2019
3rd District	Jim Branstad	January 2021
4th District	Scott Sanders	January 2019
5th District	Kathleen Svalland	January 2021
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 2021
Court Administrator (State)	Kelly Iverson	Indefinite
Coroner	Dr. Lindy Eatwell	January 2019
Highway Engineer	Roger Risser	May 2018
Probation Officer	Paul Harris	Indefinite
Veterans Service Officer	Deb Grote	Indefinite
Human Services Director	Naomi Ochsendorf	Indefinite

*Chair

**Donald Kuhlman retired in December 2017, Kelly Pauling was appointed to fill out his term.

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Financial Section

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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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, 2017, 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, 2017, and the respective changes in financial position thereof and the respective budgetary comparisons of the General Fund, Road and Bridge Special Revenue Fund, and Human Services Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 6, 2018, 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 solely 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 effectiveness of Watonwan County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Watonwan County's internal control over financial reporting and compliance.

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

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

/s/*Rebecca Otto*

REBECCA OTTO
STATE AUDITOR

August 6, 2018

/s/*Greg Hierlinger*

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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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, 2017
(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, 2017. 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 2017 by \$59,010,083. Of this amount, \$2,849,387 (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 \$1,748,123 in 2017.
- At the close of 2017, Watonwan County's governmental funds reported combined ending fund balances of \$11,277,171, of which \$1,399,108 is unassigned and is available for spending at the County's discretion.
- At the close of 2017, unassigned fund balance for the General Fund was \$3,368,733, or 49.5 percent, of total General Fund expenditures.
- Watonwan County's total bonds and capital notes payable decreased by \$350,000. There were payments of \$165,000 on the G.O. Capital Improvement Plan Refunding Bonds, Series 2010A; \$50,000 on the G.O. Capital Improvement Plan Crossover Refunding Bonds, Series 2012A; and \$60,000 on the G.O. Capital Improvement Plan Bonds, Series 2013A. In addition, a \$75,000 payment was made on the Series 2014 G.O. Capital Note.

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.

Watonwan 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. Watonwan 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.

Watonwan County's governmental fund financial statements are on Exhibits 3 to 9, and Watonwan 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 Watonwan 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 \$59,010,083 at the close of 2017. The largest portion of Watonwan County's net position (89.9 percent) reflects its investment in capital assets (for example, land, buildings, and equipment), less any related debt used to acquire those assets that is still outstanding. However, it should be noted that these assets are not available for future spending.

Governmental Net Position

	<u>2016</u>	<u>2017</u>
Assets		
Current and other assets	\$ 13,955,562	\$ 15,144,102
Capital assets	<u>55,588,125</u>	<u>55,598,859</u>
Total Assets	<u>\$ 69,543,687</u>	<u>\$ 70,742,961</u>
Deferred Outflows of Resources	<u>\$ 5,126,339</u>	<u>\$ 2,789,874</u>
Liabilities		
Long-term liabilities outstanding	\$ 14,535,055	\$ 10,933,695
Other liabilities	<u>951,479</u>	<u>1,050,581</u>
Total Liabilities	<u>\$ 15,486,534</u>	<u>\$ 11,984,276</u>
Deferred Inflows of Resources	<u>\$ 1,921,532</u>	<u>\$ 2,538,476</u>
Net Position		
Net investment in capital assets	\$ 52,563,595	\$ 53,032,024
Restricted	2,264,853	3,128,672
Unrestricted	<u>2,433,512</u>	<u>2,849,387</u>
Total Net Position	<u>\$ 57,261,960</u>	<u>\$ 59,010,083</u>

The unrestricted net position amount of \$2,849,387 as of December 31, 2017, may be used to meet the County's ongoing obligations to citizens and creditors.

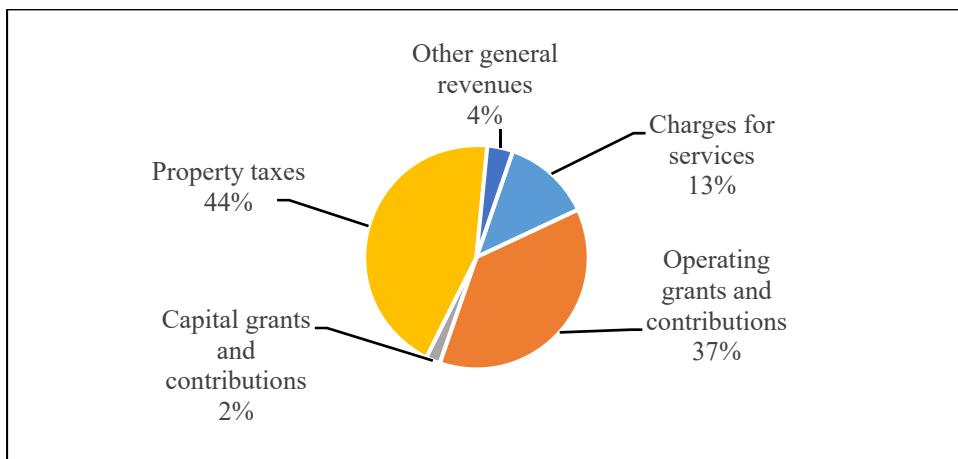
Governmental Activities

The following table summarizes the changes in net position for 2017.

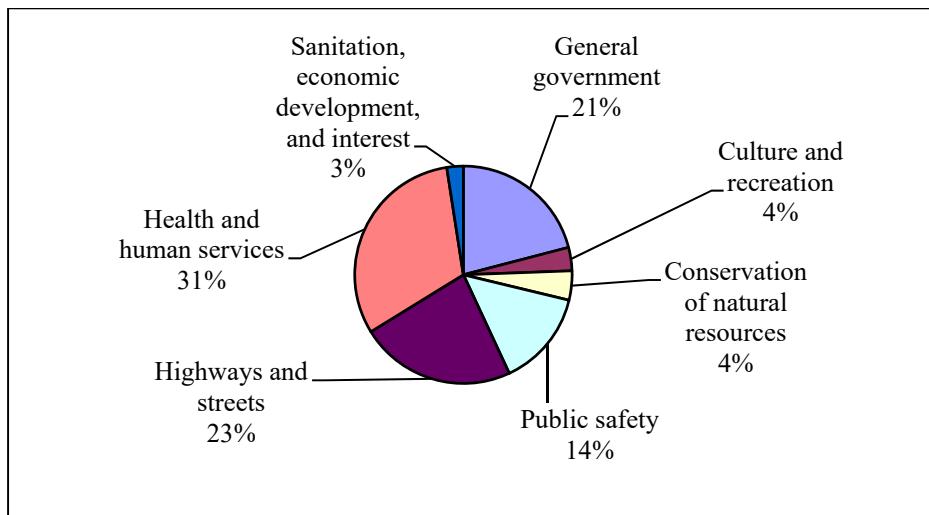
Changes in Governmental Net Position

	2016	2017
Revenues		
Program revenues		
Charges for services	\$ 2,526,826	\$ 2,571,314
Operating grants and contributions	7,254,397	7,505,376
Capital grants and contributions	2,157,772	416,433
General revenues		
Property taxes	8,535,523	8,900,392
Other	<u>846,667</u>	<u>747,235</u>
Total Revenues	<u>\$ 21,321,185</u>	<u>\$ 20,140,750</u>
Expenses		
General government	\$ 3,839,082	\$ 3,852,684
Public safety	2,874,342	2,630,637
Highways and streets	3,913,392	4,259,073
Sanitation	232,042	226,968
Human services	4,810,211	5,144,404
Health	609,324	617,100
Culture and recreation	864,642	640,698
Conservation of natural resources	656,014	797,429
Economic development	126,566	136,999
Interest	<u>98,239</u>	<u>86,635</u>
Total Expenses	<u>\$ 18,023,854</u>	<u>\$ 18,392,627</u>
Change in Net Position	\$ 3,297,331	\$ 1,748,123
Net Position - January 1	<u>53,964,629</u>	<u>57,261,960</u>
Net Position - December 31	<u>\$ 57,261,960</u>	<u>\$ 59,010,083</u>

Sources of County Revenues



Where County Funds Are Spent



FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

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

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

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$11,277,171. Of this amount, \$1,399,108 constitutes unassigned fund balance. The remainder of fund balance is nonspendable, restricted, committed, or assigned to indicate that it is not available for new spending.

The General Fund is the chief operating fund of Watonwan County. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$3,368,733, while the total fund balance was \$6,169,617. 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 49.5 percent of total General Fund expenditures for 2017, while total fund balance represents 90.6 percent of total General Fund expenditures. In 2017, the total fund balance in the General Fund increased by \$170,070, with unassigned fund balance increasing by \$236,663, restricted fund balances decreasing by \$66,593, and nonspendable fund balance remaining the same at \$1,945,000.

The Road and Bridge Special Revenue Fund's fund balance increased by \$1,315,730 in 2017. The fund showed an excess of revenues over expenditures of \$1,479,744. The County received intergovernmental revenue of \$1,852,970 in excess of the amount budgeted. The revenue in excess of the amount budgeted is partly due to a \$905,026 advance of state-aid recognized as revenue in 2017 that was budgeted in 2016. The remaining excess is due to unbudgeted intergovernmental revenue.

In 2017, the Human Services Special Revenue Fund's fund balance decreased by \$96,246. Total revenues were under budget by \$78,511, while expenditures were under budget by \$132,265. There was also a \$150,000 budgeted use of fund balance for 2017.

In 2017, the County Ditch Special Revenue Fund's fund balance decreased by \$7,359 to (\$1,817,599). The ditch improvement project on Judicial Ditch No. 13 was not finalized. The fund will collect special assessments in future years to cover the deficit fund balance.

In 2017, the Debt Service Fund's fund balance increased by \$90. This was the variance with the final budget.

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 a minimal amount of \$19,266. Total expenditures were under budget by \$304,681. The 2017 budget anticipated \$267,671 of fund balance to be expended. The added revenues and reduced expenditures resulted in an actual increase in fund balance of \$170,070.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2017, amounts to \$55,598,859 (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 \$10,734.

Governmental Capital Assets (Net of Depreciation)

	2016	2017
Land	\$ 686,771	\$ 686,771
Construction in progress	2,033,176	765,513
Land improvements	853,221	2,206,223
Buildings	5,083,600	5,273,228
Machinery, furniture, and equipment	2,303,592	2,329,484
Infrastructure	<u>44,627,765</u>	<u>44,337,640</u>
Total	<u>\$ 55,588,125</u>	<u>\$ 55,598,859</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 \$2,720,000, which is backed by the full faith and credit of the government.

Governmental Outstanding Debt

	2016	2017
General obligation bonds and notes	<u>\$ 3,070,000</u>	<u>\$ 2,720,000</u>

Standard and Poor's Ratings Service assigned an "AA" rating on Watonwan County's outstanding general obligation bonds due to improving economy in April 2016. Moody's rating remains at an "Aa3".

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 2017, 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 3.8 percent as of the end of 2017, slightly higher than the state-wide rate of 3.4 percent.
- The total tax capacity of the County dropped by approximately 8.25 percent due to a continued decrease in farmland value.

At the end of 2017, Watonwan County set its 2018 revenue and expenditure budgets, budgeting revenues and expenditures of \$22,205,077 and \$22,282,291, 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, 2017**

Assets

Cash and pooled investments	\$ 11,446,662
Taxes receivable	
Delinquent	75,163
Special assessments receivable	
Delinquent	19,916
Noncurrent	1,067,456
Accounts receivable	184,762
Accrued interest receivable	17,805
Due from other governments	2,081,165
Inventories	251,173
Capital assets	
Non-depreciable	1,452,284
Depreciable - net of accumulated depreciation	<u>54,146,575</u>
Total Assets	\$ 70,742,961

Deferred Outflows of Resources

Deferred pension outflows	<u>\$ 2,789,874</u>
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Liabilities

Accounts payable	\$ 245,995
Salaries payable	170,881
Contracts payable	22,224
Due to other governments	186,336
Accrued interest payable	35,563
Unearned revenue	389,582
Long-term liabilities	
Due within one year	926,674
Due in more than one year	3,073,275
Other postemployment benefits obligation	330,465
Net pension liability	<u>6,603,281</u>
Total Liabilities	\$ 11,984,276

Deferred Inflows of Resources

Deferred pension inflows	<u>\$ 2,538,476</u>
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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 1
(Continued)

**STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2017**

Net Position

Net investment in capital assets	\$ 53,032,024
Restricted for	
General government	225,383
Public safety	198,495
Highways and streets	1,395,451
Culture and recreation	438,401
Conservation of natural resources	396,136
Economic development	11,255
Debt service	463,551
Unrestricted	<u>2,849,387</u>
Total Net Position	<u>\$ 59,010,083</u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions		
Functions/Programs					
Primary government					
Governmental activities					
General government	\$ 3,852,684	\$ 829,490	\$ 395,170	\$ - (2,628,024)	
Public safety	2,630,637	205,286	202,773	- (2,222,578)	
Highways and streets	4,259,073	409,122	3,906,581	9,631 66,261	
Sanitation	226,968	187,755	68,711	- 29,498	
Human services	5,144,404	500,673	2,456,942	- (2,186,789)	
Health	617,100	62,642	345,147	- (209,311)	
Culture and recreation	640,698	12,718	16,132	406,802 (205,046)	
Conservation of natural resources	797,429	286,659	113,920	- (396,850)	
Economic development	136,999	76,969	-	- (60,030)	
Interest	86,635	-	-	- (86,635)	
Total Governmental Activities	\$ 18,392,627	\$ 2,571,314	\$ 7,505,376	\$ 416,433 (7,899,504)	
General Revenues					
Property taxes				\$ 8,900,392	
Mortgage registry and deed tax				6,520	
Wheelage tax				110,752	
Grants and contributions not restricted to specific programs				478,201	
Unrestricted investment earnings				151,762	
Total general revenues				\$ 9,647,627	
Change in net position				\$ 1,748,123	
Net Position - January 1				\$ 57,261,960	
Net Position - December 31				\$ 59,010,083	

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

	<u>General</u>	<u>Road and Bridge</u>
<u>Assets</u>		
Cash and pooled investments	\$ 4,768,425	\$ 2,099,349
Taxes receivable - delinquent	38,091	10,295
Special assessments receivable		
Delinquent	6,438	-
Noncurrent	401,416	-
Accounts receivable	13,892	-
Accrued interest receivable	17,805	-
Due from other funds	24,251	21,521
Due from other governments	108,943	1,395,643
Advances to other funds	1,945,000	-
Inventories	-	251,173
Total Assets	<u>\$ 7,324,261</u>	<u>\$ 3,777,981</u>
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 51,448	\$ 13,590
Salaries payable	74,555	22,560
Contracts payable	-	-
Due to other funds	26,952	4,615
Due to other governments	151,339	2,242
Unearned revenue	389,582	-
Advances from other funds	-	-
Total Liabilities	<u>\$ 693,876</u>	<u>\$ 43,007</u>
Deferred Inflows of Resources		
Unavailable revenue	\$ 460,768	\$ 1,402,644

EXHIBIT 3

Human Services	County Ditch	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
\$ 2,381,452 17,931	\$ 170,797 -	\$ 463,178 3,569	\$ 1,563,461 5,277	\$ 11,446,662 75,163
-	144	-	13,334	19,916
-	666,040	-	-	1,067,456
170,870	-	-	-	184,762
-	-	-	-	17,805
9,691	-	-	-	55,463
503,395	2,684	70,500	-	2,081,165
-	-	-	-	1,945,000
-	-	-	-	251,173
\$ 3,083,339	\$ 839,665	\$ 537,247	\$ 1,582,072	\$ 17,144,565

\$	170,233	\$	8,559	\$	645	\$	1,520	\$	245,995
	65,299		-		-		8,467		170,881
	-		22,224		-		-		22,224
	18,001		4,047		-		1,848		55,463
	21,502		11,253		-		-		186,336
	-		-		-		-		389,582
	-		-		-		-		1,945,000
\$	275,035	\$	1,991,083	\$	645	\$	11,835	\$	3,015,481
\$	235,764	\$	666,181	\$	73,051	\$	13,505	\$	2,851,913

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

	<u>General</u>	<u>Road and Bridge</u>
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>		
(Continued)		
Fund Balances		
Nonspendable		
Inventories	\$ -	\$ 251,173
Advances to other funds	1,945,000	-
Restricted for		
Law library	35,112	-
Recorder's equipment	107,637	-
Technology fees	69,464	-
E-911	193,296	-
Sheriff's contingency	5,199	-
HRA special benefit levy	11,255	-
Invasive species	83,768	-
Individual Sewage Treatment System (ISTS) loan repayments	167,329	-
Donations - veterans' van	13,170	-
Ditch maintenance and repair	-	-
Library operations from donations	-	-
Capital projects	169,654	-
Debt service	-	-
Committed for library operations	-	-
Assigned to		
Road and bridge	-	2,081,157
Human services	-	-
Solid waste	-	-
Unassigned	<u>3,368,733</u>	<u>-</u>
Total Fund Balances	<u>\$ 6,169,617</u>	<u>\$ 2,332,330</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 7,324,261</u>	<u>\$ 3,777,981</u>

EXHIBIT 3
(Continued)

Human Services	County Ditch	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 251,173
-	-	-	-	1,945,000
-	-	-	-	35,112
-	-	-	-	107,637
-	-	-	-	69,464
-	-	-	-	193,296
-	-	-	-	5,199
-	-	-	-	11,255
-	-	-	-	83,768
-	-	-	-	167,329
-	-	-	-	13,170
-	152,026	-	-	152,026
-	-	-	438,401	438,401
-	-	-	-	169,654
-	-	463,551	-	463,551
-	-	-	593,708	593,708
-	-	-	-	2,081,157
2,572,540	-	-	-	2,572,540
-	-	-	524,623	524,623
-	(1,969,625)	-	-	1,399,108
\$ 2,572,540	\$ (1,817,599)	\$ 463,551	\$ 1,556,732	\$ 11,277,171
\$ 3,083,339	\$ 839,665	\$ 537,247	\$ 1,582,072	\$ 17,144,565

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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, 2017**

Fund balances - total governmental funds (Exhibit 3)	\$ 11,277,171
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	55,598,859
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.	2,851,913
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	2,789,874
Deferred inflows related to pensions	(2,538,476)
Governmental funds do not report a liability for accrued interest on long-term liabilities until due and payable.	(35,563)
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	\$ (2,430,000)
Discount on bonds	7,170
Premium on bonds	(23,659)
General obligation capital notes	(290,000)
Loans payable	(442,328)
Net other postemployment benefits obligation	(330,465)
Net pension liability	(6,603,281)
Compensated absences	<u>(821,132)</u>
	<u>(10,933,695)</u>
Net Position of Governmental Activities (Exhibit 1)	\$ 59,010,083

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>General</u>	<u>Road and Bridge</u>
Revenues		
Taxes	\$ 4,636,925	\$ 1,362,195
Special assessments	76,349	-
Licenses and permits	8,806	-
Intergovernmental	939,974	3,960,311
Charges for services	815,475	316,038
Fines and forfeits	913	-
Gifts and contributions	5,046	-
Investment earnings	151,762	-
Miscellaneous	229,898	93,459
Total Revenues	\$ 6,865,148	\$ 5,732,003
Expenditures		
Current		
General government	\$ 3,444,837	\$ -
Public safety	2,289,953	-
Highways and streets	-	3,459,727
Sanitation	-	-
Human services	-	-
Health	-	-
Culture and recreation	85,731	570,024
Conservation of natural resources	601,420	-
Economic development	134,288	-
Intergovernmental	-	222,508
Capital outlay	135,705	-
Debt service		
Principal	114,068	-
Interest	2,870	-
Administrative charges	-	-
Total Expenditures	\$ 6,808,872	\$ 4,252,259
Excess of Revenues Over (Under) Expenditures	\$ 56,276	\$ 1,479,744
Other Financing Sources (Uses)		
Transfers in	\$ -	\$ -
Transfers out	(7,326)	-
Loan issued	121,120	-
Total Other Financing Sources (Uses)	\$ 113,794	\$ -
Net Change in Fund Balances	\$ 170,070	\$ 1,479,744
Fund Balances - January 1	5,999,547	1,016,600
Increase (decrease) in inventories	-	(164,014)
Fund Balances - December 31	\$ 6,169,617	\$ 2,332,330

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

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EXHIBIT 5

Human Services	County Ditch	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
\$ 2,091,619	\$ -	\$ 408,407	\$ 621,836	\$ 9,120,982
-	161,857	-	168,112	406,318
-	-	-	-	8,806
2,810,203	-	9,342	110,700	7,830,530
343,431	-	-	23,330	1,498,274
-	-	-	7,674	8,587
-	-	-	6,526	11,572
-	-	-	-	151,762
230,670	13,369	18,547	27	585,970
\$ 5,475,923	\$ 175,226	\$ 436,296	\$ 938,205	\$ 19,622,801
\$ -	\$ -	\$ -	\$ -	\$ 3,444,837
-	-	-	-	2,289,953
-	-	-	-	3,459,727
-	-	-	226,302	226,302
4,978,022	-	-	-	4,978,022
594,147	-	-	-	594,147
-	-	-	621,553	1,277,308
-	182,585	-	-	784,005
-	-	-	-	134,288
-	-	-	-	222,508
-	-	-	-	135,705
-	-	350,000	-	464,068
-	-	84,076	-	86,946
-	-	2,130	-	2,130
\$ 5,572,169	\$ 182,585	\$ 436,206	\$ 847,855	\$ 18,099,946
\$ (96,246)	\$ (7,359)	\$ 90	\$ 90,350	\$ 1,522,855
\$ -	\$ -	\$ -	\$ 7,326	\$ 7,326
-	-	-	-	(7,326)
-	-	-	-	121,120
\$ -	\$ -	\$ -	\$ 7,326	\$ 121,120
\$ (96,246)	\$ (7,359)	\$ 90	\$ 97,676	\$ 1,643,975
2,668,786	(1,810,240)	463,461	1,459,056	9,797,210
-	-	-	-	(164,014)
\$ 2,572,540	\$ (1,817,599)	\$ 463,551	\$ 1,556,732	\$ 11,277,171

**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, 2017**

Net change in fund balances - total governmental funds (Exhibit 5)	\$ 1,643,975
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay expenditures	\$ 1,906,257
Depreciation expense	<u>(1,895,523)</u>
	10,734
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Decrease in unavailable revenue for taxes and special assessments	\$ (17,344)
Increase in unavailable revenue for grants and allotments	<u>528,699</u>
	511,355
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	\$ (121,120)
Repayment of debt principal	<u>464,068</u>
Amortization of premium/discount on debt	<u>(707)</u>
	342,241
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	\$ (164,014)
Change in accrued interest payable	<u>3,148</u>
Change in net other postemployment benefits obligation	<u>(65,852)</u>
Change in compensated absences	<u>4,445</u>
Change in net pension liability	<u>3,320,526</u>
Change in deferred pension outflows	<u>(2,336,465)</u>
Change in deferred pension inflows	<u>(1,521,970)</u>
	(760,182)
Change in Net Position of Governmental Activities (Exhibit 2)	\$ 1,748,123

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 7

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 4,529,540	\$ 4,529,540	\$ 4,636,925	\$ 107,385
Special assessments	58,000	58,000	76,349	18,349
Licenses and permits	12,650	12,650	8,806	(3,844)
Intergovernmental	1,045,225	1,045,225	939,974	(105,251)
Charges for services	821,876	821,876	815,475	(6,401)
Fines and forfeits	-	-	913	913
Gifts and contributions	7,000	7,000	5,046	(1,954)
Investment earnings	120,000	120,000	151,762	31,762
Miscellaneous	251,591	251,591	229,898	(21,693)
Total Revenues	\$ 6,845,882	\$ 6,845,882	\$ 6,865,148	\$ 19,266
Expenditures				
Current				
General government				
County commissioners	\$ 222,722	\$ 222,722	\$ 223,000	\$ (278)
Court administrator	35,500	35,500	50,261	(14,761)
Law library	15,000	15,000	5,389	9,611
County auditor/treasurer	374,304	374,304	346,342	27,962
License center	103,188	103,188	115,748	(12,560)
Personnel	98,207	98,207	102,676	(4,469)
Central services	136,692	136,692	117,771	18,921
Elections	6,208	6,208	374	5,834
Information services	347,294	347,294	401,310	(54,016)
County attorney	283,697	283,697	266,826	16,871
Attorney's contingent	7,500	7,500	596	6,904
County recorder	221,084	221,084	220,521	563
County assessor	373,879	373,879	301,864	72,015
Building maintenance	312,559	312,559	277,361	35,198
Veterans service	134,967	134,967	128,465	6,502
Motor pool	50,000	50,000	59,286	(9,286)
Public transit	483,654	483,654	365,133	118,521
Other general government	390,913	390,913	461,914	(71,001)
Total general government	\$ 3,597,368	\$ 3,597,368	\$ 3,444,837	\$ 152,531

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 7
(Continued)

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget		
	Original	Final				
Expenditures						
Current (Continued)						
Public safety						
County sheriff	\$ 1,448,629	\$ 1,448,629	\$ 1,361,054	\$ 87,575		
Sheriff's contingent	5,000	5,000	-	5,000		
Jail	572,100	572,100	577,441	(5,341)		
E-911 and radio maintenance	82,761	82,761	43,806	38,955		
County coroner	25,000	25,000	32,167	(7,167)		
Court services	207,489	207,489	197,515	9,974		
Emergency management	82,210	82,210	65,131	17,079		
Public Health Emergency Preparedness	14,378	14,378	12,839	1,539		
Total public safety	\$ 2,437,567	\$ 2,437,567	\$ 2,289,953	\$ 147,614		
Culture and recreation						
County parks	\$ 28,300	\$ 28,300	\$ 47,231	\$ (18,931)		
Historical society	38,500	38,500	38,500	-		
Total culture and recreation	\$ 66,800	\$ 66,800	\$ 85,731	\$ (18,931)		
Conservation of natural resources						
Environmental services	\$ 290,445	\$ 290,445	\$ 258,342	\$ 32,103		
County extension	90,754	90,754	83,985	6,769		
Agricultural society/fair grounds	45,300	45,300	97,636	(52,336)		
Soil and water conservation	62,970	62,970	100,388	(37,418)		
Local water plan block grant	71,386	71,386	61,069	10,317		
Total conservation of natural resources	\$ 560,855	\$ 560,855	\$ 601,420	\$ (40,565)		
Economic development						
Employment and training	\$ 78,394	\$ 78,394	\$ 76,962	\$ 1,432		
Economic development	48,000	48,000	57,326	(9,326)		
Total economic development	\$ 126,394	\$ 126,394	\$ 134,288	\$ (7,894)		

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 7
(Continued)

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures (Continued)				
Capital outlay				
General government	\$ 221,695	\$ 221,695	\$ 135,705	\$ 85,990
Debt service				
Principal	\$ 96,421	\$ 96,421	\$ 114,068	\$ (17,647)
Interest	6,453	6,453	2,870	3,583
Total debt service	\$ 102,874	\$ 102,874	\$ 116,938	\$ (14,064)
Total Expenditures	\$ 7,113,553	\$ 7,113,553	\$ 6,808,872	\$ 304,681
Excess of Revenues Over (Under) Expenditures				
	\$ (267,671)	\$ (267,671)	\$ 56,276	\$ 323,947
Other Financing Sources (Uses)				
Transfers out	\$ -	\$ -	\$ (7,326)	\$ (7,326)
Proceeds from loan	-	-	121,120	121,120
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 113,794	\$ 113,794
Net Change in Fund Balance	\$ (267,671)	\$ (267,671)	\$ 170,070	\$ 437,741
Fund Balance - January 1	<u>5,999,547</u>	<u>5,999,547</u>	<u>5,999,547</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 5,731,876</u>	<u>\$ 5,731,876</u>	<u>\$ 6,169,617</u>	<u>\$ 437,741</u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 8

**BUDGETARY COMPARISON STATEMENT
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,381,229	\$ 1,381,229	\$ 1,362,195	\$ (19,034)
Intergovernmental	2,107,341	2,107,341	3,960,311	1,852,970
Charges for services	395,000	395,000	316,038	(78,962)
Miscellaneous	105,000	105,000	93,459	(11,541)
Total Revenues	\$ 3,988,570	\$ 3,988,570	\$ 5,732,003	\$ 1,743,433
Expenditures				
Current				
Highways and streets				
Administration	\$ 422,870	\$ 422,870	\$ 243,855	\$ 179,015
Maintenance	855,620	855,620	859,572	(3,952)
Construction	1,283,430	1,283,430	1,289,360	(5,930)
Equipment maintenance and shop	641,650	641,650	739,028	(97,378)
Other	555,000	555,000	327,912	227,088
Total highways and streets	\$ 3,758,570	\$ 3,758,570	\$ 3,459,727	\$ 298,843
Culture and recreation				
Trails	-	-	570,024	(570,024)
Intergovernmental				
Highways and streets	230,000	230,000	222,508	7,492
Total Expenditures	\$ 3,988,570	\$ 3,988,570	\$ 4,252,259	\$ (263,689)
Net Change in Fund Balance	\$ -	\$ -	\$ 1,479,744	\$ 1,479,744
Fund Balance - January 1	1,016,600	1,016,600	1,016,600	-
Increase (decrease) in inventories	-	-	(164,014)	(164,014)
Fund Balance - December 31	\$ 1,016,600	\$ 1,016,600	\$ 2,332,330	\$ 1,315,730

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 9

**BUDGETARY COMPARISON STATEMENT
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,090,166	\$ 2,090,166	\$ 2,091,619	\$ 1,453
Intergovernmental	2,903,468	2,903,468	2,810,203	(93,265)
Charges for services	385,050	385,050	343,431	(41,619)
Miscellaneous	175,750	175,750	230,670	54,920
Total Revenues	\$ 5,554,434	\$ 5,554,434	\$ 5,475,923	\$ (78,511)
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,113,479	\$ 1,113,479	\$ 1,171,499	\$ (58,020)
Social services	3,969,586	3,969,586	3,806,523	163,063
Total human services	\$ 5,083,065	\$ 5,083,065	\$ 4,978,022	\$ 105,043
Health				
Community health services	621,369	621,369	594,147	27,222
Total Expenditures	\$ 5,704,434	\$ 5,704,434	\$ 5,572,169	\$ 132,265
Net Change in Fund Balance	\$ (150,000)	\$ (150,000)	\$ (96,246)	\$ 53,754
Fund Balance - January 1	2,668,786	2,668,786	2,668,786	-
Fund Balance - December 31	\$ 2,518,786	\$ 2,518,786	\$ 2,572,540	\$ 53,754

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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, 2017**

Assets

Cash and pooled investments	\$ 536,503
Accrued interest	<u>233</u>
Total Assets	<u>\$ 536,736</u>

Liabilities

Accounts payable	\$ 55,803
Due to other governments	<u>480,933</u>
Total Liabilities	<u>\$ 536,736</u>

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017**

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as of and for the year ended December 31, 2017. 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 and Jointly-Governed Organizations

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

B. Basic Financial Statements

1. County-Wide Statements

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

In the county-wide statement of net position, the governmental activities are presented on a consolidated basis and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. County-Wide Statements (Continued)

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

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

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

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

Additionally, the County reports the following fund types:

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

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

C. Measurement Focus and Basis of Accounting

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

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

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

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Investments are reported at their fair value at December 31, 2017. A market approach is used to value all investments other than external investment pools, which are measured at the net asset value per share. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds may receive investment earnings based on other state statutes, grant agreements, contracts, or bond covenants. Pooled investment earnings for 2017 were \$151,762.

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

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

2. Receivables and Payables

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

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

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

Special assessments receivable consist of delinquent special assessments payable in the years 2012 through 2017 and noncurrent special assessments payable in 2018 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 acquisition value.

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

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

Assets	Years
Buildings	25 - 40
Improvements other than buildings	30
Machinery, furniture, and equipment	5 - 15
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, differences between expected and actual pension plan economic experience, changes in actuarial assumptions, differences between projected and actual earnings on pension plan investments, and pension plan changes in proportionate share. No deferred outflows of resources affect the governmental funds financial statements in the current year.

**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)

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 until that time. The County has two items, unavailable revenue and deferred pension inflows, which qualify for reporting in this category. The County reports unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Unavailable revenue arises only under a modified accrual basis of accounting and, accordingly, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available. 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, changes in actuarial assumptions, and pension plan changes in proportionate share.

8. Pension Plan

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

9. Unearned Revenue

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Classification of Net Position

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

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

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

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

11. Classification of Fund Balances

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

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

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Classification of Fund Balances (Continued)

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

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

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

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

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

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

12. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

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

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

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

2. Stewardship, Compliance, and Accountability (Continued)

B. Excess of Expenditures Over Budget

The funds shown below had expenditures in excess of budget for the year ended December 31, 2017.

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
Road and Bridge Special Revenue Fund	\$ 4,252,259	\$ 3,988,570	\$ 263,689
Debt Service Fund	436,206	436,077	129

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

C. Deficit Fund Equity - County Ditch Special Revenue Fund

The County Ditch Special Revenue Fund has a deficit fund balance of \$1,817,599. The deficit will be eliminated with future special assessment levies against the benefited properties. The following is a summary of the individual ditch systems:

29 ditches with positive fund balances	\$ 152,026
10 ditches with deficit fund balances	<u>(1,969,625)</u>
Total Fund Balance	<u>\$ (1,817,599)</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	\$ 11,446,662
Fiduciary funds	
Cash and pooled investments	<u>536,503</u>
Agency funds	<u>536,503</u>
Total Cash and Investments	<u>\$ 11,983,165</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 to designate depositories for public funds. The County is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. It is the County's policy to minimize custodial credit risk of deposits by making deposits with financial institutions as defined by Minn. Stat. § 118A.01, and by obtaining necessary documentation of perfected security interest in pledged collateral from the financial institutions. As of December 31, 2017, 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

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

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

As of December 31, 2017, all County investments, valued at \$555,088, were in the MAGIC Fund's MAGIC Portfolio.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

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

Interest Rate Risk

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

Credit Risk

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

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

At December 31, 2017, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's policy to minimize concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimal. As of December 31, 2017, all of the County's investments were in the MAGIC Fund.

2. Receivables

Receivables as of December 31, 2017, for the County are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Taxes - delinquent	\$ 75,163	\$ -
Special assessments - delinquent	19,916	-
Special assessments - noncurrent	1,067,456	980,792
Accounts	184,762	-
Accrued interest	17,805	-
Due from other governments	2,081,165	53,500
Total	\$ 3,446,267	\$ 1,034,292

**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, 2017, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 686,771	\$ -	\$ -	\$ 686,771
Construction in progress	<u>2,033,176</u>	<u>433,186</u>	<u>1,700,849</u>	<u>765,513</u>
Total capital assets not depreciated	<u>\$ 2,719,947</u>	<u>\$ 433,186</u>	<u>\$ 1,700,849</u>	<u>\$ 1,452,284</u>
Capital assets depreciated				
Buildings	\$ 8,864,924	\$ 397,483	\$ -	\$ 9,262,407
Land improvements	913,775	1,390,591	-	2,304,366
Machinery, furniture, and equipment	6,845,896	387,745	265,809	6,967,832
Infrastructure	<u>65,240,815</u>	<u>998,101</u>	<u>-</u>	<u>66,238,916</u>
Total capital assets depreciated	<u>\$ 81,865,410</u>	<u>\$ 3,173,920</u>	<u>\$ 265,809</u>	<u>\$ 84,773,521</u>
Less: accumulated depreciation for				
Buildings	\$ 3,781,324	\$ 207,855	\$ -	\$ 3,989,179
Land improvements	60,554	37,589	-	98,143
Machinery, furniture, and equipment	4,542,304	361,853	265,809	4,638,348
Infrastructure	<u>20,613,050</u>	<u>1,288,226</u>	<u>-</u>	<u>21,901,276</u>
Total accumulated depreciation	<u>\$ 28,997,232</u>	<u>\$ 1,895,523</u>	<u>\$ 265,809</u>	<u>\$ 30,626,946</u>
Total capital assets depreciated, net	<u>\$ 52,868,178</u>	<u>\$ 1,278,397</u>	<u>\$ -</u>	<u>\$ 54,146,575</u>
Total Capital Assets, Net	<u><u>\$ 55,588,125</u></u>	<u><u>\$ 1,711,583</u></u>	<u><u>\$ 1,700,849</u></u>	<u><u>\$ 55,598,859</u></u>

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

General government	\$ 244,005
Public safety	96,819
Highways and streets, including depreciation of infrastructure assets	1,480,091
Sanitation	666
Human services	39,397
Culture and recreation	33,608
Conservation of natural resources	<u>937</u>
 Total Depreciation Expense	 <u>\$ 1,895,523</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, 2017, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	Purpose
General	Road and Bridge	\$ 4,615	Reimbursement for services
	Library	1,635	Reimbursement for services
	Human Services	<u>18,001</u>	Reimbursement for services
Total due to General Fund		<u>\$ 24,251</u>	
Road and Bridge	General	\$ 17,261	Fuel and reimbursement for services and salaries
	County Ditch	4,047	Reimbursement for services
	Solid Waste	<u>213</u>	Reimbursement for services
Total due to Road and Bridge Fund		<u>\$ 21,521</u>	
Human Services	General	<u>\$ 9,691</u>	Shared expense for professional services
Total Due To/From Other Funds		<u>\$ 55,463</u>	

The interfund receivables and payables are expected to be paid within one year of December 31, 2017.

2. Advances From/To Other Funds

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables and Payables

2. Advances From/To Other Funds (Continued)

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

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2017, consisted of the following:

Transfers to County Library Fund from General Fund	\$ <u>7,326</u>	Interest distribution
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C. Liabilities and Deferred Inflows of Resources

1. Other Postemployment Benefits (OPEB)

Watonwan County provides postemployment health care benefits for retirees and elected officials. Within 60 days of the effective date of an elected County official's retirement or termination, the County shall contribute an amount equal to the annual premium for single health insurance coverage in effect at the time of termination or retirement for every four complete years of service, up to a maximum of five terms. During 2017, the County made no contributions for this benefit.

The County also provides health insurance benefits for eligible retired employees and their spouses under a single-employer, self-insured plan. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b. Retirees are required to pay 100 percent of the total premium cost. Since the premium is determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. This postemployment benefit is funded on a pay-as-you-go basis, usually paying retiree benefits out of the General Fund. For 2017, there were approximately 147 participants in the plan, including 1 retiree. The implicit rate subsidy amount was determined by an actuarial study to be \$8,648 for 2017.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

1. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation

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

ARC	\$ 79,381
Interest on net OPEB obligation	9,261
Adjustment to ARC	<u>(14,142)</u>
Annual OPEB cost (expense)	\$ 74,500
Contributions made	<u>(8,648)</u>
Increase (decrease) in net OPEB obligation	\$ 65,852
Net OPEB obligation - January 1	<u>264,613</u>
Net OPEB obligation - December 31	<u>\$ 330,465</u>

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, 2015, 2016, and 2017, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contributions	Percentage Contributed	Net OPEB Obligations
December 31, 2015	\$ 77,122	\$ 22,362	29.0%	\$ 214,122
December 31, 2016	77,022	26,531	34.4	264,613
December 31, 2017	74,500	8,648	11.6	330,465

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

1. Other Postemployment Benefits (OPEB) (Continued)

Funded Status and Funding Progress

As of January 1, 2017, the most recent actuarial valuation date, the plan was 0.0 percent funded. The actuarial accrued liability for benefits was \$530,849, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$530,849. The covered payroll (annual payroll of active employees covered by the plan) was \$6,408,390, and the ratio of the UAAL to the covered payroll was 8.3 percent.

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

Actuarial Methods and Assumptions

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

1. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

In the January 1, 2017, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3.5 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 6.5 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 6 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, 2017, was 20 years.

2. Construction Commitments

The County has active construction projects as of December 31, 2017. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Ditch projects	\$ 950,669	\$ 24,179

3. Long-Term Debt

Bonds

Type of Indebtedness	Final Maturity	Installment Amount	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2017
G.O. Capital Improvement Refunding Bonds, Series 2010A	2021	\$170,000 - \$180,000	2.30 - 3.00	\$ 1,650,000	\$ 705,000
G.O. Capital Improvement Crossover Refunding Bonds, Series 2012A	2026	\$50,000 - \$55,000	1.55 - 2.60	625,000	475,000
G.O. Capital Improvement Plan Bonds, Series 2013A	2034	\$60,000 - \$90,000	2.00 - 4.00	1,420,000	1,250,000

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

3. Long-Term Debt

Bonds (Continued)

Type of Indebtedness	Final Maturity	Installment Amount	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2017
G.O. Capital Notes, Series 2014	2021	\$65,000 - \$75,000	2.29	<u>515,000</u>	<u>290,000</u>
Total				<u>\$ 4,210,000</u>	<u>\$ 2,720,000</u>
Plus: unamortized premium					23,659
Less: unamortized discount					<u>(7,170)</u>
Total General Obligation Bonds, Net					<u>\$ 2,736,489</u>

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

Loans Payable

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

Type of Indebtedness	Final Maturity	Installment Amount	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2017
Greater Blue Earth and Des Moines River Clean Water Partnership Project, SRF0221	2022	\$17,225	2.00	\$ 310,831	\$ 159,267
Watowwan Ag Best Management Loan Program	2027	\$3,158 - \$19,526	-	<u>340,044</u>	<u>283,061</u>
Total Loans				<u>\$ 650,875</u>	<u>\$ 442,328</u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

4. Debt Service Requirements

Debt service requirements at December 31, 2017, were as follows:

Year Ending December 31	General Obligation Bonds		Capital Notes	
	Principal	Interest	Principal	Interest
2018	\$ 280,000	\$ 70,138	\$ 75,000	\$ 6,641
2019	285,000	63,933	75,000	4,924
2020	290,000	56,907	75,000	3,206
2021	295,000	48,945	65,000	1,488
2022	120,000	43,192	-	-
2023 - 2027	575,000	163,235	-	-
2028 - 2032	405,000	77,300	-	-
2033 - 2034	180,000	7,200	-	-
Total	<u>\$ 2,430,000</u>	<u>\$ 530,850</u>	<u>\$ 290,000</u>	<u>\$ 16,259</u>

Year Ending December 31	Loans Payable	
	Principal	Interest
2018	\$ 53,807	\$ 3,029
2019	66,470	2,397
2020	70,649	1,753
2021	67,138	1,096
2022	63,898	426
2023 - 2027	<u>120,366</u>	<u>-</u>
Total	<u>\$ 442,328</u>	<u>\$ 8,701</u>

**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, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
G.O. Capital Improvement Refunding Bonds, Series 2010A	\$ 870,000	\$ -	\$ 165,000	\$ 705,000	\$ 170,000
G.O. Capital Improvement Crossover Refunding Bonds, Series 2012A	525,000	-	50,000	475,000	50,000
G.O. Capital Improvement Plan Bonds, Series 2013A	1,310,000	-	60,000	1,250,000	60,000
G.O. Capital Notes, Series 2014	365,000	-	75,000	290,000	75,000
Plus: unamortized premium on bonds	25,272	-	1,613	23,659	-
Less: unamortized discount on bonds	(9,490)	-	(2,320)	(7,170)	-
Total bonds payable	<u>\$ 3,085,782</u>	<u>\$ -</u>	<u>\$ 349,293</u>	<u>\$ 2,736,489</u>	<u>\$ 355,000</u>
Loans payable	435,276	121,120	114,068	442,328	53,807
Compensated absences	<u>825,577</u>	<u>742,898</u>	<u>747,343</u>	<u>821,132</u>	<u>517,867</u>
Total Long-Term Liabilities	<u><u>\$ 4,346,635</u></u>	<u><u>\$ 864,018</u></u>	<u><u>\$ 1,210,704</u></u>	<u><u>\$ 3,999,949</u></u>	<u><u>\$ 926,674</u></u>

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

**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, 2017, for the County's governmental funds are as follows:

	Unearned Revenue	Deferred Inflows of Resources
Unavailable revenue		
Taxes and special assessments, delinquent and noncurrent	\$ -	\$ 1,135,278
Highway allotments that do not provide current financial resources	- -	1,395,451
Charges for services, grants, and reimbursements	- -	321,184
Grants	<u>389,582</u>	<u>-</u>
Total Governmental Funds	<u>\$ 389,582</u>	<u>\$ 2,851,913</u>

D. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$500,000 per claim in 2017 and 2018. 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.

4. Pension Plans

A. Defined Benefit Pension Plans

1. Plan Description

All full-time and certain part-time employees of Watonwan County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Plan, the Public Employees Police and Fire Plan, and the Local Government Correctional Service Retirement Plan (the Public Employees Correctional Plan), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

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

Police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Plan (accounted for in the Police and Fire Fund). For members first hired after June 30, 2010, but before July 1, 2014, benefits vest on a prorated basis 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.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

1. Plan Description (Continued)

Local government employees of a county-administered facility who are responsible for the direct security, custody, and control of the county correctional facility and its inmates are covered by the Public Employees Correctional Plan (accounted for in the Correctional Fund). For members hired after June 30, 2010, benefits vest on a prorated basis 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. General Employees Retirement Plan and Public Employees Police and Fire Plan benefit recipients receive a future annual 1.0 percent for the post-retirement benefit increase, while Public Employees Correctional Plan benefit recipients receive 2.5 percent. For the General Employees Retirement Plan and the Public Employees Police and Fire Plan, if the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

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

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Plan Coordinated and Basic Plan members. Members hired prior to July 1, 1989, receive the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989. For Public Employees Police and Fire Plan members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Plan members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

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

3. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Retirement Plan Basic members and Coordinated members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in 2017. Public Employees Police and Fire Plan members were required to contribute 10.80 percent of their annual covered salary in 2017. Public Employees Correctional Plan members were required to contribute 5.83 percent of their annual covered salary in 2017.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

3. Contributions (Continued)

In 2017, the County was required to contribute the following percentages of annual covered salary:

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

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

The County's contributions for the year ended December 31, 2017, to the pension plans were:

General Employees Retirement Plan	\$ 415,925
Public Employees Police and Fire Plan	85,287
Public Employees Correctional Plan	25,628

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

4. Pension Costs

General Employees Retirement Plan

At December 31, 2017, the County reported a liability of \$5,515,719 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was 0.0864 percent. It was 0.0873 percent measured as of June 30, 2016. The County recognized pension expense of \$746,505 for its proportionate share of the General Employees Retirement Plan's pension expense.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

The County also recognized \$2,004 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation required the State of Minnesota to contribute \$6 million to the General Employees Retirement Plan for the fiscal year ended June 30, 2017.

The County's proportionate share of the net pension liability	\$ 5,515,719
State of Minnesota's proportionate share of the net pension liability associated with the County	<u>69,390</u>
Total	<u>\$ 5,585,109</u>

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 181,781	\$ 357,229
Changes in actuarial assumptions	925,267	552,951
Difference between projected and actual investment earnings	42,070	-
Changes in proportion	38,869	145,234
Contributions paid to PERA subsequent to the measurement date	<u>205,310</u>	<u>-</u>
Total	<u>\$ 1,393,297</u>	<u>\$ 1,055,414</u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

The \$205,310 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, 2018. 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
2018	\$ 160,816
2019	325,971
2020	(120,081)
2021	(234,133)

Public Employees Police and Fire Plan

At December 31, 2017, the County reported a liability of \$688,561 for its proportionate share of the Public Employees Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was 0.051 percent. It was 0.057 percent measured as of June 30, 2016. The County recognized pension expense of \$175,014 for its proportionate share of the Public Employees Police and Fire Plan's pension expense.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Plan (Continued)

The County also recognized \$4,590 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Public Employees Police and Fire Plan. Legislation requires the State of Minnesota to contribute \$9 million to the Police and Fire Plan each year, starting in fiscal year 2014, until the plan is 90 percent funded.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 15,849	\$ 201,314
Changes in actuarial assumptions	1,007,133	977,585
Difference between projected and actual investment earnings	32,314	-
Changes in proportion	51,900	200,659
Contributions paid to PERA subsequent to the measurement date	<u>42,680</u>	<u>-</u>
Total	<u>\$ 1,149,876</u>	<u>\$ 1,379,558</u>

The \$42,680 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, 2018. 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 Police and Fire Plan (Continued)

Year Ended December 31	Pension Expense Amount
2018	\$ 16,591
2019	16,591
2020	(9,640)
2021	(63,423)
2022	(232,481)

Public Employees Correctional Plan

At December 31, 2017, the County reported a liability of \$399,001 for its proportionate share of the Public Employees Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was 0.14 percent. It was 0.15 percent measured as of June 30, 2016. The County recognized pension expense of \$149,825 for its proportionate share of the Public Employees Correctional Plan's pension expense.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Correctional Plan (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 286	\$ 6,651
Changes in actuarial assumptions	232,749	69,454
Difference between projected and actual investment earnings	539	-
Changes in proportion	-	27,399
Contributions paid to PERA subsequent to the measurement date	<u>13,127</u>	<u>-</u>
Total	<u>\$ 246,701</u>	<u>\$ 103,504</u>

The \$13,127 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, 2018. 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
2018	\$ 85,536
2019	88,496
2020	(32,855)
2021	(11,107)

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2017, was \$1,071,344.

5. Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Plan and the Public Employees Police and Fire Plan, cost of living benefit increases for retirees are assumed to be 1.0 percent through 2044 and 2064, respectively, and 2.5 percent thereafter. Cost of living benefit increases for retirees are assumed to be 2.5 percent for the Public Employees Correctional Plan.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Retirement Plan was dated June 30, 2015. The experience study for the Public Employees Police and Fire Plan was dated August 30, 2016. The experience study for the Public Employees Correctional Plan was dated February 2012.

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	39%	5.10%
International stocks	19	5.30
Bonds	20	0.75
Alternative assets	20	5.90
Cash	2	0.00

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2017, which remained consistent with 2016. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Retirement Plan and the Public Employees Police and Fire Plan were 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.

In the Public Employees Correctional Plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2061. Beginning in fiscal year ended June 30, 2062, when projected benefit payments exceed the Plan's projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 3.56 percent based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.96 percent for the Public Employees Correctional Plan was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50 percent applied to all years of projected benefits to the point of asset depletion and 3.56 percent thereafter.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans (Continued)

7. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2017:

General Employees Retirement Plan

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15 percent for vested deferred member liability, and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

Public Employees Police and Fire Plan

- The assumed salary increases were changed as recommended in the June 30, 2016, experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- The assumed rates of retirement were changed, resulting in fewer retirements.
- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 33 percent for vested members and 2.0 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality table assumed for healthy retirees.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions

Public Employees Police and Fire Plan (Continued)

- The assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- The assumed percentage of married female members was decreased from 65 percent to 60 percent.
- The assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing joint and survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent for all years to 1.0 percent per year through 2064 and 2.5 percent thereafter.
- The single discount rate was changed from 5.60 percent per annum to 7.50 percent per annum.

Public Employees Correctional Plan

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016 and is applied to healthy and disabled members. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the RP-2014 disabled annuitant mortality table (with future mortality improvement according to Scale MP-2016).

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions

Public Employees Correctional Plan (Continued)

- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 35 percent for vested members and 1.0 percent for non-vested members.
- The single discount rate was changed from 5.31 percent per annum to 5.96 percent per annum.

8. Pension Liability Sensitivity

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

	Proportionate Share of the					
	General Employees Retirement Plan		Public Employees Police and Fire Plan		Public Employees Correctional Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	6.50%	\$ 8,555,290	6.50%	\$ 1,296,761	4.96%	\$ 657,504
Current	7.50	5,515,719	7.50	688,561	5.96	399,001
1% Increase	8.50	3,027,278	8.50	186,458	6.96	197,236

9. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org; 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

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer 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, 2017, were:

	Employee	Employer
Contribution amount	\$ 6,035	\$ 6,035
Percentage of covered payroll	5%	5%

5. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities (Continued)

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. Nonexchange Financial Guarantees

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

On September 15, 2009, pursuant to Minn. Stat. ch. 475 and § 116A.20, the County issued the \$1,600,000 G.O. Water Revenue Refunding Bonds, Series 2009, on behalf of the RRRWS to current refund the outstanding portion of the \$1,765,000 G.O. Water Revenue Bonds, Series 2002. Scheduled bond payments for the issuance began on January 1, 2010, and continue until the final maturity date of January 1, 2032. Bonds maturing on January 1, 2020, and thereafter are subject to a continuous early redemption option.

On June 1, 2016, pursuant to Minn. Stat. ch. 475 and § 116A.20, the County issued the \$1,155,000 G.O. Water Revenue Crossover Refunding Bonds, Series 2016A, on behalf of the RRRWS to crossover refund the G.O. Water Revenue Refunding Bonds of 2009. The proceeds of this issuance have been invested by an escrow agent and used to pay interest on the 2016 bonds until January 1, 2019, at which time, the 2009 bonds will be refunded. Scheduled bond payments for this issuance begin on January 1, 2020, and continue until the final maturity date of January 1, 2032. Bonds maturing on January 1, 2025, and thereafter are subject to a continuous early redemption option.

The RRRWS is responsible for the payment of all costs, principal, and interest relating to these bonds through special assessments on the properties being serviced or the net revenues of the water system. In the event of a deficiency in the debt service accounts established by the RRRWS, the County has validly obligated itself to levy additional ad valorem taxes upon all the taxable property within the County to complete debt payments as scheduled. No arrangements have been established for recovery payments should such an event occur. On December 31, 2017, the outstanding principal balance for the 2009 and 2016 bonds were \$1,135,000 and \$1,155,000, respectively.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

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

C. 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: the Cities of Fairmont, Mankato, North Mankato, St. James, St. Peter, and Madelia, and the Counties of Blue Earth, Martin, Nicollet, and Watonwan. The Task Force is governed by a Board of Directors consisting of the Chief of Police or Sheriff of each participating governmental unit or their designee. Funding is provided from the members and the sale of seized/forfeited properties. During the year, Watonwan County contributed \$11,935 to the Task Force.

Red Rock Rural Water System

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

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

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. 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.

South Central Minnesota Regional Emergency Communications Board

The South Central Minnesota Regional Emergency Communications Board (formerly 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**

5. Summary of Significant Contingencies and Other Items

C. 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 the year, Watonwan County contributed \$761 to the Board. The Chair of the Board is Kip Bruender, and the address is P. O. Box 8608, Mankato, Minnesota 56002-8608.

South Central Workforce Service Area Joint Powers Board

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

Watonwan County made no contributions to this organization in 2017.

Separate financial information can be obtained from the 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**

5. Summary of Significant Contingencies and Other Items

C. 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 2017, Watonwan County made \$18,281 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 2017, Watonwan County made contributions of \$22,000 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**

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

D. Jointly-Governed Organizations

Greater Blue Earth River Basin Alliance

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

Region Five - Southwest Minnesota Homeland Security Emergency Management Organization

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

Minnesota Counties Computer Cooperative

The Minnesota Counties Computer Cooperative (MCCC) provides computer programming services for the County. During the year, Watonwan County purchased \$72,579 in services from MCCC.

Minnesota Criminal Justice Data Communications Network

The Minnesota Criminal Justice Data Communications Network Joint Powers Agreement exists to create access for the County Sheriff and County Attorney to systems and tools available from the State of Minnesota, Department of Public Safety, and the Bureau of Criminal Apprehension to carry out criminal justice. During the year, Watonwan County paid \$1,560 to the Network.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

South Central Community-Based Initiative

The South Central Community-Based Initiative Joint Powers Board was established pursuant to Minn. Stat. §§ 471.59 and 245.4661 and a joint powers agreement effective June 20, 2008. The purpose of this joint powers agreement is to provide services to persons with mental illness in the most clinically-appropriate, person-centered, least restrictive, and cost effective ways. The focus is on improved access and outcomes for persons with mental illness as a result of the collaboration between state-operated services programs and community-based treatment. The membership of the Board is comprised of one representative appointed by Blue Earth, Brown, Faribault, Freeborn, Le Sueur, Martin, Nicollet, Rice, Sibley, and Watonwan Counties. Watonwan County did not contribute to the Joint Powers Board in 2017.

South Central Emergency Medical Service

The South Central Emergency Medical Service (SCEMS) Joint Powers Board consists of Blue Earth, Brown, Faribault, Le Sueur, Martin, Nicollet, Sibley, Waseca, and Watonwan Counties. The purpose of SCEMS is to ensure quality patient care is available throughout the nine-county area by maximizing the response capabilities of emergency medical personnel and to promote public education on injury prevention and appropriate response during a medical emergency. Each county appoints one member for the Joint Powers Board. Watonwan County did not contribute to the SCEMS in 2017.

South Central Regional IMMTRACK Joint Powers Board

The South Central Regional IMMTRACK (immunization registry) Joint Powers Board promotes an implementation and maintenance of a regional immunization information system to ensure age-appropriate immunizations through complete and accurate records. During the year, Watonwan County made payments of \$3,376 to IMMTRACK.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

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

E. Special Benefit Tax Levy

In 1993, the South Central Minnesota Multi-County Housing Authority issued \$20,315,000 of revenue bonds to construct housing units in Watonwan County and four surrounding counties. The Authority has since defaulted on these bonds. In 2000, the counties entered into a settlement agreement where each of the counties will approve a special benefit tax levy on behalf of the Authority from 2001 through 2024 to cover the operating deficits based on each county's proportionate share of housing units constructed. Watonwan County's proportionate share of the operating deficit for 2017 is \$95,458. The proportionate share of the counties may change for years 2018 through 2024 if there are changes in the taxable market value over the 2001 taxable market value; however, the County's share may not increase by the lesser of two percent or the increase over the 2001 taxable market value.

F. Tax Abatements

The County entered into property tax abatement agreements with various developers, under Minn. Stat. §§ 469.1812 through 469.1815, as amended. Under the statute, a political subdivision may grant a current or prospective abatement of property taxes if it expects the benefits to the political subdivision of the proposed abatement agreement to at least equal the costs to political subdivision of the proposed agreement and it will provide benefits such as increasing or preserving the tax base or providing employment opportunities in the County.

Dick Olson Motors

The County entered into a property tax abatement agreement with Dick Olson Motors and the City of Madelia, in January 2004, for a period of 14 years effective in the years 2005 through 2018. The tax abatement was to offset the costs of infrastructure improvements and related economic development. The estimated abatement amount was \$10,000/year for the 14-year tax period. In years 2005 through 2011, the abatement was to be paid to Dick Olson Motors and, in years 2012 through 2018, it is to be paid to the City of Madelia. Watonwan County provided a tax system recap report that showed the County amount for 2017 was \$3,389.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

F. Tax Abatements (Continued)

Tax Abatements - Pay-As-You-Go Tax Increment

The County is subject to tax abatements granted by cities within the County pursuant to Minn. Stat §§ 469.174 - .1794 (tax increment financing) through a pay-as-you-go note program. Tax increment financing (TIF) can be used to encourage private development, redevelopment, renovation and renewal, growth in low- to moderate-income housing, and economic development within the city. TIF captures the increase in tax capacity and property taxes (of most taxing jurisdictions, including the County) from development or redevelopment to provide funding for the related project. The pay-as-you-go note provides for payment to the developer of a percentage of all tax increment received in the prior six months. The payment reimburses the developer for certain public improvements. During 2017, the City of St. James had two pay-as-you-go notes within the County. The tax increment taxes collected during 2017 totaled \$33,210 for this note. Watonwan County's portion of the captured tax capacity and related property taxes was approximately \$9,508, or 29 percent.

REQUIRED SUPPLEMENTARY INFORMATION

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT A-1

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2017**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Unfunded			Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
		Actuarial Accrued Liability (AAL) (b)	Actuarial Accrued Liability (UAAL) (b - a)				
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	
January 1, 2017	-	530,849	530,849	0.0	6,408,390	8.3	

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT A-2

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2017**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Watonwan County (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of the Total Plan Fiduciary Net Position (a/c)
						Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of the Total Plan Fiduciary Net Position (a/c)
2017	0.0864%	\$ 5,515,719	\$ 69,390	\$ 5,585,109	\$ 5,568,869	99.05%	75.90%
2016	0.0873	7,088,327	92,639	7,180,966	5,419,996	130.78	68.91
2015	0.0858	4,446,601	N/A	4,446,601	5,051,691	88.02	78.19

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

The measurement date for each year is June 30.

N/A - Not Applicable

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT A-3

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2017**

Year Ending	Actual Contributions in Relation to Statutorily Required Contributions			Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
	Statutorily Required Contributions (a)	Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)		
2017	\$ 415,925	\$ 415,925	\$ -	\$ 5,545,670	7.50%
2016	407,922	407,922	-	5,438,961	7.50
2015	381,729	381,729	-	5,089,723	7.50

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT A-4

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2017**

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
2017	0.051%	\$ 688,561	\$ 523,413	131.55%	85.43%
2016	0.057	2,287,509	544,559	420.07	63.88
2015	0.053	602,204	489,030	123.14	86.61

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT A-5

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2017**

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)
2017	\$ 85,287	\$ 85,287	\$ -	\$ 526,465	16.20%
2016	84,828	84,828	-	523,630	16.20
2015	82,737	82,737	-	510,719	16.20

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT A-6

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES CORRECTIONAL PLAN
DECEMBER 31, 2017**

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
2017	0.14%	\$ 399,001	\$ 270,441	147.54%	67.89%
2016	0.15	547,971	283,457	193.32	58.16
2015	0.15	23,190	267,504	8.67	96.95

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT A-7

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES CORRECTIONAL PLAN
DECEMBER 31, 2017**

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)
2017	\$ 25,628	\$ 25,628	\$ -	\$ 292,887	8.75%
2016	23,129	23,129	-	264,332	8.75
2015	23,436	23,436	-	267,836	8.75

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

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2017**

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

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

General Employees Retirement Plan

2017

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15 percent for vested deferred member liability, and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2016

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

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

Public Employees Police and Fire Plan

2017

- The assumed salary increases were changed as recommended in the June 30, 2016, experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- The assumed rates of retirement were changed, resulting in fewer retirements.
- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 33 percent for vested members and 2.0 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality table assumed for healthy retirees.
- The assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- The assumed percentage of married female members was decreased from 65 percent to 60 percent.
- The assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing joint and survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent for all years to 1.0 percent per year through 2064 and 2.5 percent thereafter.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

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

Public Employees Police and Fire Plan

2017 (Continued)

- The single discount rate was changed from 5.60 percent per annum to 7.50 percent per annum.

2016

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

Public Employees Correctional Plan

2017

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016 and is applied to healthy and disabled members. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the RP-2014 disabled annuitant mortality table (with future mortality improvement according to Scale MP-2016).
- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 35 percent for vested members and 1.0 percent for non-vested members.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

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

Public Employees Correctional Plan

2017 (Continued)

- The single discount rate was changed from 5.31 percent per annum to 5.96 percent per annum.

2016

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

SUPPLEMENTARY INFORMATION

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**COMBINING AND INDIVIDUAL FUND STATEMENTS
AND SCHEDULES**

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

DEBT SERVICE FUND

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

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT B-1

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 408,189	\$ 408,189	\$ 408,407	\$ 218
Intergovernmental	9,342	9,342	9,342	-
Miscellaneous	18,546	18,546	18,547	1
Total Revenues	\$ 436,077	\$ 436,077	\$ 436,296	\$ 219
Expenditures				
Debt service				
Principal	\$ 350,000	\$ 350,000	\$ 350,000	\$ -
Interest	84,077	84,077	84,076	1
Administrative charges	2,000	2,000	2,130	(130)
Total Expenditures	\$ 436,077	\$ 436,077	\$ 436,206	\$ (129)
Net Change in Fund Balance	\$ -	\$ -	\$ 90	\$ 90
Fund Balance - January 1	463,461	463,461	463,461	-
Fund Balance - December 31	\$ 463,461	\$ 463,461	\$ 463,551	\$ 90

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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, 2017**

	Special Revenue Funds		
	County Library	Solid Waste	Total
<u>Assets</u>			
Cash and pooled investments	\$ 1,042,185	\$ 521,276	\$ 1,563,461
Taxes receivable - delinquent	5,145	132	5,277
Special assessments receivable - delinquent	-	13,334	13,334
Total Assets	\$ 1,047,330	\$ 534,742	\$ 1,582,072
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 1,520	\$ -	\$ 1,520
Salaries payable	8,426	41	8,467
Due to other funds	1,635	213	1,848
Total Liabilities	\$ 11,581	\$ 254	\$ 11,835
Deferred Inflows of Resources			
Unavailable revenue	\$ 3,640	\$ 9,865	\$ 13,505
Fund Balances			
Restricted for library operations from donations	\$ 438,401	\$ -	\$ 438,401
Committed for library operations	593,708	-	593,708
Assigned to solid waste	-	524,623	524,623
Total Fund Balances	\$ 1,032,109	\$ 524,623	\$ 1,556,732
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,047,330	\$ 534,742	\$ 1,582,072

**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, 2017**

	Special Revenue Funds			
	County Library	Solid Waste	Total	
Revenues				
Taxes	\$ 605,727	\$ 16,109	\$ 621,836	
Special assessments	-	168,112	168,112	
Intergovernmental	41,150	69,550	110,700	
Charges for services	4,383	18,947	23,330	
Fines and forfeits	7,674	-	7,674	
Gifts and contributions	6,526	-	6,526	
Miscellaneous	27	-	27	
Total Revenues	\$ 665,487	\$ 272,718	\$ 938,205	
Expenditures				
Current				
Sanitation	\$ -	226,302	\$ 226,302	
Culture and recreation	621,553	-	621,553	
Total Expenditures	\$ 621,553	\$ 226,302	\$ 847,855	
Excess of Revenues Over (Under) Expenditures	\$ 43,934	\$ 46,416	\$ 90,350	
Other Financing Sources (Uses)				
Transfers in	7,326	-	7,326	
Net Change in Fund Balances	\$ 51,260	\$ 46,416	\$ 97,676	
Fund Balances - January 1	980,849	478,207	1,459,056	
Fund Balances - December 31	\$ 1,032,109	\$ 524,623	\$ 1,556,732	

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT C-3

**BUDGETARY COMPARISON SCHEDULE
COUNTY LIBRARY SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 619,589	\$ 619,589	\$ 605,727	\$ (13,862)
Intergovernmental	17,294	17,294	41,150	23,856
Charges for services	3,800	3,800	4,383	583
Fines and forfeits	9,600	9,600	7,674	(1,926)
Gifts and contributions	-	-	6,526	6,526
Miscellaneous	-	-	27	27
Total Revenues	\$ 650,283	\$ 650,283	\$ 665,487	\$ 15,204
Expenditures				
Current				
Culture and recreation				
County library	652,283	652,283	621,553	30,730
Excess of Revenues Over (Under) Expenditures	\$ (2,000)	\$ (2,000)	\$ 43,934	\$ 45,934
Other Financing Sources (Uses)				
Transfers in	2,000	2,000	7,326	5,326
Net Change in Fund Balance	\$ -	\$ -	\$ 51,260	\$ 51,260
Fund Balance - January 1	980,849	980,849	980,849	-
Fund Balance - December 31	\$ 980,849	\$ 980,849	\$ 1,032,109	\$ 51,260

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT C-4

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 16,094	\$ 16,094	\$ 16,109	\$ 15
Special assessments	190,625	190,625	168,112	(22,513)
Intergovernmental	68,569	68,569	69,550	981
Charges for services	15,400	15,400	18,947	3,547
Total Revenues	\$ 290,688	\$ 290,688	\$ 272,718	\$ (17,970)
Expenditures				
Current				
Sanitation				
SCORE	247,518	247,518	226,302	21,216
Net Change in Fund Balance	\$ 43,170	\$ 43,170	\$ 46,416	\$ 3,246
Fund Balance - January 1	478,207	478,207	478,207	-
Fund Balance - December 31	\$ 521,377	\$ 521,377	\$ 524,623	\$ 3,246

**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, 2017**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>AGENCY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>43,527</u>	\$ <u>2,201,745</u>	\$ <u>2,192,870</u>	\$ <u>52,402</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>43,527</u>	\$ <u>2,201,745</u>	\$ <u>2,192,870</u>	\$ <u>52,402</u>
<u>VISION FOR FAMILY AND COMMUNITY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>-</u>	\$ <u>126,385</u>	\$ <u>91,542</u>	\$ <u>34,843</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>-</u>	\$ <u>126,385</u>	\$ <u>91,542</u>	\$ <u>34,843</u>
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>276,413</u>	\$ <u>18,312,801</u>	\$ <u>18,276,585</u>	\$ <u>312,629</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>276,413</u>	\$ <u>18,312,801</u>	\$ <u>18,276,585</u>	\$ <u>312,629</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, 2017**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>CEMETERY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 40,657	\$ 15,218	\$ 305	\$ 55,570
Accrued interest	<u>100</u>	<u>133</u>	<u>-</u>	<u>233</u>
Total Assets	\$ 40,757	\$ 15,351	\$ 305	\$ 55,803
<u>Liabilities</u>				
Accounts payable	<u>\$ 40,757</u>	<u>\$ 15,351</u>	<u>\$ 305</u>	<u>\$ 55,803</u>
<u>SOIL AND WATER CONSERVATION</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 69,569</u>	<u>\$ 299,966</u>	<u>\$ 288,476</u>	<u>\$ 81,059</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 69,569</u>	<u>\$ 299,966</u>	<u>\$ 288,476</u>	<u>\$ 81,059</u>
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 430,166	\$ 20,956,115	\$ 20,849,778	\$ 536,503
Accrued interest	<u>100</u>	<u>133</u>	<u>-</u>	<u>233</u>
Total Assets	\$ 430,266	\$ 20,956,248	\$ 20,849,778	\$ 536,736
<u>Liabilities</u>				
Accounts payable	\$ 40,757	\$ 15,351	\$ 305	\$ 55,803
Due to other governments	<u>389,509</u>	<u>20,940,897</u>	<u>20,849,473</u>	<u>480,933</u>
Total Liabilities	\$ 430,266	\$ 20,956,248	\$ 20,849,778	\$ 536,736

SCHEDULES

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT E-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2017**

Appropriations and Shared Revenue

State

Aquatic invasive species prevention aid	\$ 32,498
County program aid	239,751
Disparity reduction aid	5,064
Enhanced 911	82,761
Highway users tax	3,140,793
Market value credit	206,886
PERA rate reimbursement	19,906
Police aid	65,079
SCORE	68,711
Total appropriations and shared revenue	\$ 3,861,449

Reimbursement for Services

State

Minnesota Department of Human Services	\$ 425,169
--	------------

Grants

State

Minnesota Department/Board of	
Corrections	\$ 34,345
Education	9,606
Health	70,619
Human Services	986,348
Natural Resources	175,536
Transportation	250,850
Water and Soil Resources	81,422
Total state	\$ 1,608,726

Federal

Department/Institute of	
Agriculture	\$ 178,161
Education	2,416
Health and Human Services	1,091,271
Homeland Security	16,225
Transportation	647,113
Total federal	\$ 1,935,186

Total state and federal grants

Total Intergovernmental Revenue

\$ 3,543,912

\$ 7,830,530

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT E-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Federal Grantor	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
Pass-Through Agency			
Program or Cluster Title			
<hr/>			
U.S. Department of Agriculture			
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	17172MN004W1003	\$ 97,244
Passed Through Minnesota Department of Human Services SNAP Cluster State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	172MN101S2514	97,145
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	172MN127Q7503	4,973
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	172MN101S2520	53
(Total State Administrative Matching Grants for the Supplemental Nutrition Assistance Program 10.561 - \$102,171)			<hr/>
Total U.S. Department of Agriculture			\$ 199,415
<hr/>			
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation Highway Planning and Construction Cluster Highway Planning and Construction	20.205	00083	\$ 329,321
Formula Grants for Rural Areas	20.509	AGR#1026739	<hr/> 92,050
Total U.S. Department of Transportation			\$ 421,371
<hr/>			
U.S. Department of Education			
Passed Through Minnesota Department of Health Special Education - Grants for Infants and Families	84.181	H181A140029	\$ 2,416
<hr/>			
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Health Public Health Emergency Preparedness	93.069	NU90TP921911-01-00	\$ 29,715
TANF Cluster Temporary Assistance for Needy Families	93.558	2017G996115	30,312
(Total Temporary Assistance for Needy Families 93.558 - \$136,335)			
Maternal and Child Health Services Block Grant to the States	93.994	B04MC29349	17,444

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

***EXHIBIT E-2
(Continued)***

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

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 (Continued)			
Passed Through Minnesota Department of Human Services			
Promoting Safe and Stable Families	93.556	G1601MNPSS	3,305
TANF Cluster			
Temporary Assistance for Needy Families	93.558	1601MNTANF	106,023
(Total Temporary Assistance for Needy Families 93.558 - \$136,335)			
Child Support Enforcement	93.563	1704MNCSES	232,774
Refugee and Entrant Assistance - State Administered Programs	93.566	1701MNRCMA	241
CCDF Cluster			
Child Care and Development Block Grant	93.575	G1701MNCCDF	2,267
Community-Based Child Abuse Prevention Grants	93.590	G-1502MNFRPG	3,088
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1601MNCWSS	2,516
Foster Care - Title IV-E	93.658	1701MNFOST	148,167
Social Services Block Grant	93.667	G-1701MNSOSR	78,631
Chafee Foster Care Independence Program	93.674	G-1601MNCILP	24,609
Children's Health Insurance Program	93.767	05-1705MN0301	123
Medicaid Cluster			
Medical Assistance Program	93.778	05-1705MN5ADM	571,543
Medical Assistance Program	93.778	05-1705MN5MAP	5,071
(Total Medical Assistance Program 93.778 - \$576,614)			
Total U.S. Department of Health and Human Services			\$ 1,255,829
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Public Safety			
Emergency Management Performance Grants	97.042	EMC-2017-EP-00003	\$ 16,225
Total Federal Awards			\$ 1,895,256
Totals by Cluster			
Total expenditures for SNAP Cluster			\$ 102,171
Total expenditures for Highway Planning and Construction Cluster			329,321
Total expenditures for TANF Cluster			136,335
Total expenditures for CCDF Cluster			2,267
Total expenditures for Medicaid Cluster			576,614

The County did not pass any federal awards through to subrecipients during the year ended December 31, 2017.

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

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, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Watonwan County, it is not intended to and does not present the financial position or changes in net position of Watonwan County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Watonwan County has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 1,935,186
Grants received more than 60 days after year-end, unavailable in 2017	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (CFDA No. 10.561)	21,254
Formula Grants for Rural Areas (CFDA No. 20.509)	27,654
Public Health Emergency Preparedness (CFDA No. 93.069)	6,960
Promoting Safe and Stable Families (CFDA No. 93.556)	1,742
Temporary Assistance for Needy Families (CFDA No. 93.558)	24,502
Child Support Enforcement (CFDA No. 93.563)	34,280
Community-Based Child Abuse Prevention Grants (CFDA No. 93.590)	241
Stephanie Tubbs Jones Child Welfare Services Program (CFDA No. 93.645)	1,176
Chafee Foster Care Independence Program (CFDA No. 93.674)	4,975
Unavailable in 2016, recognized as revenue in 2017	
Highway Planning and Construction (CFDA No. 20.205)	(253,396)
Collaborative Grants (received into an agency fund)	
Foster Care - Title IV-E (CFDA No. 93.658)	20,248
Medical Assistance Program (CFDA No. 93.778)	<u>70,434</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 1,895,256</u>

**Management and
Compliance Section**

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REBECCA OTTO
STATE AUDITOR

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

Independent Auditor's Report

Board of County Commissioners
Watonwan County
St. James, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Watonwan County, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 6, 2018.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001 to be a material weakness.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

In connection with our audit, nothing came to our attention that caused us to believe that Watonwan County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties*, except as described in the Schedule of Findings and Questioned Costs as items 2016-002, 2017-004, 2017-005, and 2017-006. 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.

Watonwan County's Response to Findings

Watonwan County's responses to the internal control and legal compliance findings identified in our audit are described in the Corrective Action Plan. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

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

/s/*Rebecca Otto*

REBECCA OTTO
STATE AUDITOR

/s/*Greg Hierlinger*

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 6, 2018

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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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, 2017. 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, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2017-001, 2017-002, and 2017-003. Our opinion on each major federal program is not modified with respect to these matters.

Watonwan County's responses to the noncompliance findings identified in our audit are described in the accompanying Corrective Action Plan. Watonwan County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2017-001, 2017-002, and 2017-003 that we consider to be significant deficiencies.

Watonwan County's responses to the internal control over compliance findings identified in our audit are described in the accompanying Corrective Action Plan. Watonwan County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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

August 6, 2018

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

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)? **Yes**

The major federal programs are:

Highway Planning and Construction Cluster	CFDA No. 20.205
Medicaid Cluster	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 Number 2014-001

Audit Adjustments

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

Condition: Material audit adjustments were identified 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, 2017:

- Unspent state grant revenue of \$296,000 in the General Fund was adjusted to unearned revenue.
- Unavailable highway user tax revenue of \$241,652 in the Road and Bridge Special Revenue Fund was adjusted to reduce recognized revenue.
- Cash and due to other governments in the Taxes and Penalties Agency Fund was reduced by \$87,495 to account for the County's portion of prepaid taxes.

Cause: The County informed us that the activity was overlooked when preparing the financial statements.

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

View of Responsible Official: Acknowledged

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEMS ARISING THIS YEAR

Finding Number 2017-001

Procurement, Suspension, and Debarment

Program: U.S. Department of Health and Human Services' Medicaid Cluster (CFDA No. 93.778); Award No. 05-1705MN5ADM, 2017

Pass-Through Agency: Minnesota Department of Human Services

Criteria: Federal regulations provided in Title 2 U.S. *Code of Federal Regulations* § 200.318(i) state that the non-federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to, the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. Non-federal entities must follow further federal guidance over verifying debarment, suspension, and exclusions as provided in Title 2 U.S. *Code of Federal Regulations* §§ 180.300, 200.213, and 200.318(h).

Condition: Of the four procurement transactions tested for compliance with federal regulations, three instances were noted where the history of the procurement was not documented, and for one of the procurements, there was no documentation of full and open competition. Additionally, there was no verification performed by the County to determine whether vendors were debarred, suspended, or whether other exclusions existed for two of the three covered transactions that were selected for testing.

Questioned Costs: None

Context: Four of 15 procurement transactions over \$3,500 were tested for compliance with federal regulations, which includes three of the six purchases over \$25,000.

The sample size was based on guidance from chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

Effect: The County is not in compliance with federal regulations.

Cause: The County management did not realize the procurement requirements applied to this type of activity.

Recommendation: We recommend the County document the history of procurement transactions including full and open competition in accordance with federal regulations. Additionally, the County should maintain documentation to verify vendors are not suspended, debarred, or otherwise excluded.

View of Responsible Official: Acknowledged

Finding Number 2017-002

Eligibility

Program: U.S. Department of Health and Human Services' Medicaid Cluster (CFDA No. 93.778), Award No. 05-1705MN5ADM, 2017

Pass-Through Agency: Minnesota Department of Human Services

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.303 states that the auditee must establish and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Condition: The Minnesota Department of Human Services (DHS) maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. While overall program supervisory case reviews are performed to provide reasonable assurance of compliance with grant eligibility requirements, there was no documentation on file to support supervisory case reviews performed specifically for Medical Assistance case files. When performing tests of case files for compliance with eligibility requirements, it was noted that not all documentation was available to support participant eligibility. In other circumstances, information was either input incorrectly or not properly updated in MAXIS. The following instances were noted in the sample of 40 cases tested:

- Six case files did not meet verification of asset requirements. For four case files, asset information in MAXIS did not match the supporting documentation provided by the participant, and for two case files, there was no verification of assets in the case file.

- Two case files did not meet the verification of income requirements. For one case file, the income in MAXIS did not match the supporting documentation provided by the participant, and for one case file, there was no verification of income in the case file.

Questioned Costs: Not applicable. The County administers the program, but benefits to participants in this program are paid by the State of Minnesota.

Context: The State of Minnesota contracts with the County to perform the “intake function” (meeting with the social services client to determine income and categorical eligibility), while the DHS maintains MAXIS, which supports the eligibility determination process and actually pays the benefits to the participants.

The sample size was based on guidance from chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

Effect: The lack of updated information in MAXIS and verification of key eligibility-determining factors increases the risk that a program participant will receive benefits when they are not eligible.

Cause: The County does not have a policy in place to indicate the frequency or quantity of reviews, including how the reviews and follow-up with case worker should be documented.

Recommendation: We recommend the County implement additional review procedures to provide reasonable assurance that all necessary documentation to support eligibility determinations exist and is properly input or updated in MAXIS and issues are followed up on in a timely manner. In addition, we recommend the County develop a policy that indicates the frequency and quantity of supervisory reviews, key points of review, and procedures for following-up on the review points.

View of Responsible Official: Acknowledged

Finding Number 2017-003

Reporting

Program: U.S. Department of Health and Human Services’ Medicaid Cluster (CFDA No. 93.778), Award No. 05-1705MN5ADM, 2017

Pass-Through Agency: Minnesota Department of Human Services

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.303 states that the auditee must establish and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Requirements for the Local Collaborative Time Study (LCTS) Cost Schedules (DHS-3220 reports) are laid out in DHS Bulletin #16-32-04 - Local Collaborative Time Study (LCTS) Fiscal Operations. The bulletin states that LCTS fiscal site contacts are required to verify that the information on the LCTS Fiscal and Cost Schedule is accurate and that it complies with all guidelines set forth in the LCTS Cost Schedule instructions. It also states that the County's LCTS fiscal reporting and payment agent is required to review all cost schedules from participating agencies on or before the 20th calendar day following the end of each quarter.

Condition: No documentation has been maintained to support that four of the five quarterly reports tested were reviewed by the County.

Questioned Costs: None.

Context: The DHS-3220 reports are submitted on a quarterly basis by each member of the LCTS to DHS for reimbursement of LCTS money, which is reimbursed to the County with federal Medical Assistance Program funds. The Watonwan County Human Services Department acts as the LCTS fiscal reporting and payment agent for the local collaborative in Watonwan County and is responsible for reviewing all cost schedules from participating agencies.

The sample size was based on guidance from chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

Effect: The lack of a review process increases the risk that reports will not be submitted as required or will not be correct.

Cause: The County indicated that there are no procedures in place to conduct reviews of the quarterly reports.

Recommendation: We recommend the County implement procedures to ensure that all DHS-3220 reports required to be submitted are reviewed by the County's LCTS fiscal reporting and payment agent. Evidence of the review should be retained.

View of Responsible Official: Acknowledged

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2016-002

Forfeited Property Net Proceeds to Taxing Districts

Criteria: Annually, the net proceeds from the sale of forfeited land must be apportioned by the County Auditor/Treasurer to the taxing districts interested in the land in accordance with Minn. Stat. §§ 282.08 and 282.09.

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

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

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

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

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

View of Responsible Official: Acknowledged

ITEMS ARISING THIS YEAR

Finding Number 2017-004

Publication of Board Minutes

Criteria: Pursuant to Minn. Stat. § 375.12, within 30 days of each meeting, the County Board must have the official proceedings of its sessions or a summary published in a qualified newspaper of general circulation in the County.

Condition: The affidavits of publication related to the publishing of a summary of the County Board minutes for 2017 were reviewed. The summaries were not published in the County's official newspaper within the 30-day requirement.

Context: Of the five published summaries reviewed, only one was published within the 30-day requirement.

Effect: Noncompliance with Minn. Stat. § 375.12.

Cause: The County indicated that publishing the Board minutes was not made a priority.

Recommendation: We recommend the County publish its summaries of the County Board minutes in compliance with Minn. Stat. § 375.12.

View of Responsible Official: Acknowledged

Finding Number 2017-005

Insufficient Collateral

Criteria: Government entities are required by Minn. Stat. § 118A.03, subd. 3, to obtain collateral to secure deposits to the extent funds on deposit exceed available federal deposit insurance at the close of the financial institution's banking day. The market value of the collateral should be at least ten percent more than the uninsured and unbonded amount on deposit, unless the collateral is an irrevocable letter of credit issued by Federal Home Loan Banks, which requires an amount at least equal to the amount on deposit.

Condition: Collateral pledged by one financial institution did not adequately cover the County's deposits.

Context: During the month of October, collateral pledged by the financial institution was insufficient on 15 of the 22 banking days, with estimated deficiencies ranging from approximately \$80,000 to \$1.66 million.

Effect: When there is insufficient collateral with a bank, Watonwan County may not have been able to recover, in the event of bank default, the portion of funds for which there was no collateral.

Cause: The County indicated this was an oversight.

Recommendation: We recommend Watonwan County improve their procedures over monitoring deposits to ensure there is adequate collateral pledged to secure deposits in accordance with Minn. Stat. § 118A.03.

View of Responsible Official: Acknowledged

Contract Compliance

Criteria: Minnesota statutes contain requirements for the contracting processes used by local governments.

Condition: One construction project tested was not in compliance with the following requirements:

- Contractor's Performance and Payment Bond: Minn. Stat. § 574.26 requires contractors doing public work to give both a performance bond and a payment bond in an amount not less than the contract price if the contract is more than \$100,000. Performance and payment bonds were not provided by the contractor for the project, which was awarded at the price of \$106,500.
- Responsible Contractor Requirement: Minn. Stat. § 16C.285 requires that for construction contracts in excess of \$50,000, that the contractor submit a verification of compliance signed under oath by an owner or officer verifying compliance with the minimum criteria set forth in Minn. Stat. § 16C.285, subd. 3. The County did not have the required form from the contractor on file.
- Withholding Affidavit for Contractors (IC-134): Referring to the withholding of income taxes by the contractor or subcontractor, Minn. Stat. § 270C.66 states that, "No . . . political or governmental subdivision of the state shall make final settlement with any contractor under a contract requiring the employment of employees for wages by said contractor and by subcontractors until satisfactory showing is made that said contractor or subcontractor has complied with the provisions of section 290.92." Final payment for the project was made without receiving a Minnesota Department of Revenue approved Form IC-134, which requires the reporting of employee withholdings, from the contractor.

Context: Contracting for this project was overseen by the Highway Department. Regarding the contract bonds, in lieu of the payment and performance bonds, the contractor provided a certified check in an amount equal to the required bonding. Minnesota statutes do not allow for this as an alternative to bonding.

Effect: Noncompliance with Minn. Stat. §§ 574.26, 16C.285, and 270C.66.

Cause: The County indicated this was an oversight.

Recommendation: We recommend the County develop contracting procedures to ensure that contracting is performed in accordance with applicable statutes and the County procurement policy.

View of Responsible Official: Acknowledged

V. PREVIOUSLY REPORTED ITEMS RESOLVED

2015-001 County Ditch Deficit Fund Balances

2016-001 Individual Ditch System Cash Deficits

Kelly Pauling
Watonwan County Auditor/Treasurer

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

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2017**

Finding Number: 2014-001

Finding Title: Audit Adjustments

Name of Contact Person Responsible for Corrective Action:

Kelly Pauling, County Auditor/Treasurer

Corrective Action Planned:

Watonwan County will have a more extensive review of revenues to ensure the financial statements are accurate, complete, and fairly presented in accordance with generally accepted accounting principles.

Anticipated Completion Date:

Ongoing

Finding Number: 2017-001

Finding Title: Procurement, Suspension, and Debarment

Program: Medicaid Cluster (CFDA No. 93.778)

Name of Contact Person Responsible for Corrective Action:

Kelly Pauling, County Auditor/Treasurer

Corrective Action Planned:

Watonwan County will implement procedures needed to document the history of procurements, including full and open competition, in accordance with federal regulation. Watonwan County will determine and document whether vendors are debarred or suspended, or whether other exclusions existed.

Anticipated Completion Date:

Ongoing

Finding Number: 2017-002

Finding Title: Eligibility

Program: Medicaid Cluster (CFDA No. 93.778)

Name of Contact Person Responsible for Corrective Action:

Jodi Halvorson

Corrective Action Planned:

Watonwan County will perform quarterly case reviews and maintain documentation of those reviews in Excel. Annual refresher training will be provided to staff to assure necessary documentation exists in the case files and is properly input and updated in MAXIS.

Anticipated Completion Date:

Ongoing

Finding Number: 2017-003

Finding Title: Reporting

Program: Medicaid Cluster (CFDA No. 93.778)

Name of Contact Person Responsible for Corrective Action:

Erin Sandbo-Marks

Corrective Action Planned:

View current reports and compare with prior quarter before final submission. County's LCTS fiscal reporting and payment agent will initial a paper copy of report after completing review. Worker will contact reporting agency if there is a significant change from prior quarter.

Anticipated Completion Date:

December 31, 2018

Finding Number: 2016-002

Finding Title: Forfeited Property Net Proceeds to Taxing Districts

Name of Contact Person Responsible for Corrective Action:

Kelly Pauling, County Auditor/Treasurer

Corrective Action Planned:

Watonwan County will use the unspent balance to offset expenses related to forfeited property.
Watonwan County will distribute future net proceeds in accordance with Minn. Stat. § 282.08.

Anticipated Completion Date:

December 31, 2018

Finding Number: 2017-004

Finding Title: Publication of Board Minutes

Name of Contact Person Responsible for Corrective Action:

Lisa Schumann, Human Resources Director

Corrective Action Planned:

Watonwan County will utilize reminders to publish the Board minutes to meet the 30-day requirement.

Anticipated Completion Date:

Ongoing

Finding Number: 2017-005

Finding Title: Insufficient Collateral

Name of Contact Person Responsible for Corrective Action:

Julie Kelley, Finance Director

Corrective Action Planned:

Watonwan County will monitor daily account balances to ensure that collateral pledged is sufficient to cover daily deposits.

Anticipated Completion Date:

Ongoing

Finding Number: 2017-006

Finding Title: Contract Compliance

Name of Contact Person Responsible for Corrective Action:

Kelly Pauling, County Auditor/Treasurer

Corrective Action Planned:

Watonwan County will obtain performance and payment bonds for contracts in accordance with statutory requirements. The County procurement policy and procedures for contracting will be discussed with the Highway Department to ensure statutes are being followed.

Anticipated Completion Date:

Ongoing

Kelly Pauling
Watonwan County Auditor/Treasurer

PO BOX 518
710 SECOND AVENUE SOUTH
ST. JAMES, MN 56081
PHONE (507) 375-1210
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**REPRESENTATION OF WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Finding Number: 2014-001

Finding Title: Audit Adjustments

Summary of Condition: During the 2016 audit, audit adjustments were proposed that resulted in changes to Watonwan County's financial statements.

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

Status: Not Corrected. County staff will continue to review activity to ensure the financial statements are materially correct.

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

Yes _____ No X

Finding Number: 2016-001

Finding Title: Individual Ditch System Cash Deficits

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

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

Status: Fully Corrected. Corrective action was taken.

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

Yes _____ No X

Finding Number: 2016-002

Finding Title: Forfeited Property Net Proceeds to Taxing Districts

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

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

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

Status: Not Corrected. Watonwan County's Auditor/Treasurer will review the activity and ensure it is properly apportioned to the applicable taxing districts.

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

Yes _____ No X

Finding Number: 2015-001

Finding Title: County Ditch Deficit Fund Balances

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

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

Status: Fully Corrected. Corrective action was taken.

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

Yes _____ No X