

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

WATONWAN COUNTY
ST. JAMES, MINNESOTA

YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - 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 Employee's 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, 2004



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

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**ORGANIZATION
2004**

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Commissioners		
1st District	Dwayne Krenz*	January 2009
2nd District	Noren Durheim	January 2007
3rd District	William Berg	January 2009
4th District	Scott Sanders	January 2007
5th District	John Baerg	January 2009
Officers		
Elected		
Attorney	LaMar Piper	January 2007
Auditor	Donald Kuhlman	January 2007
County Recorder	Joy Sing	January 2007
Sheriff	Gary Menssen	January 2007
Treasurer	Carol F. Johnson	January 2007
Appointed		
Assessor	Noreen Curry	January 2009
Court Administrator	Kelly Iverson	Indefinite
Coroner	R. A. Parsons, M.D.	January 2007
Highway Engineer	Roger Risser	May 2007
Probation Officer	Paul Harris	Indefinite
Veterans Service Officer	Deb Grote	Indefinite
Human Services Director	Richard Collins	Indefinite

*2004 Chair

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PATRICIA ANDERSON
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Watonwan County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Watonwan County, Minnesota, as of and for the year ended December 31, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Watonwan County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information for Watonwan County as of December 31, 2004, and the respective changes in financial position thereof and the budgetary comparisons for the General Fund, Road and Bridge Special Revenue Fund, and Human Services Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2005, on our consideration of Watonwan County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: July 28, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2004
(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, 2004. We encourage readers to consider the information presented here in conjunction with the County's basic financial statements following this section. All amounts, unless otherwise indicated, are expressed in whole dollars

FINANCIAL HIGHLIGHTS

- The assets of Watonwan County exceeded its liabilities at the close of 2004 by \$40,993,441. Of this amount, \$3,839,580 (unrestricted net assets) may be used to meet Watonwan County's ongoing obligations to citizens and creditors.
- Watonwan County's total net assets increased by \$456,660 in 2004.
- At the close of 2004, Watonwan County's governmental funds reported combined ending fund balances of \$8,644,809. Approximately \$2,195,085 is available for spending at the County's discretion and is noted as unreserved, undesignated fund balance.
- At the close of 2004, unreserved fund balance for the General Fund was \$2,740,071, or 58 percent, of total General Fund expenditures.
- Watonwan County's total bonds and capital notes payable increased by \$1,965,000, or 74.7 percent, during 2004. The key factor to this increase was the issuance of \$2,115,000 of refunding bonds with offsetting payments of \$150,000. The proceeds of the refunding bonds will be held in escrow until the refunded bonds are paid off in 2007.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

County-Wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

Governmental funds. 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.

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

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

Watonswan County's governmental fund financial statements are on Exhibits 3 to 7, and Watonswan County's fiduciary funds are on Exhibit 8.

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, Watonswan County also provides supplementary information on intergovernmental revenues (Schedule 1).

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

County-Wide Financial Analysis

Over time, net assets serve as a useful indicator of the County's financial position. Watonwan County's assets exceeded liabilities by \$40,993,441 at the close of 2004. The largest portion of Watonwan County's net assets (83.1 percent) reflects its investment in capital assets (for example, land, buildings, and equipment), less any related debt used to acquire those assets that are still outstanding. However, it should be noted that these assets are not available for future spending.

(Exhibit 1) Watonwan County's Governmental Net Assets

	2004	2003
Current and other assets	\$ 10,953,275	\$ 9,275,548
Capital assets	36,555,027	35,872,899
Total Assets	\$ 47,508,302	\$ 45,148,447
Long-term liabilities outstanding	\$ 5,823,822	\$ 3,720,167
Other liabilities	691,039	891,499
Total Liabilities	\$ 6,514,861	\$ 4,611,666
Net Assets		
Invested in capital assets - net of related debt	\$ 34,067,184	\$ 33,326,214
Restricted	3,086,677	1,558,496
Unrestricted	3,839,580	5,652,071
Total Net Assets	\$ 40,993,441	\$ 40,536,781

The unrestricted net asset amount of \$3,839,580 as of December 31, 2004, may be used to meet the County's ongoing obligations to citizens and creditors.

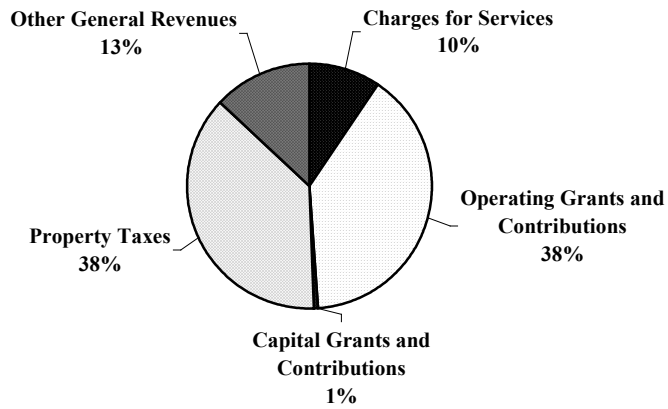
Governmental Activities

The following table summarizes the changes in net assets for 2004.

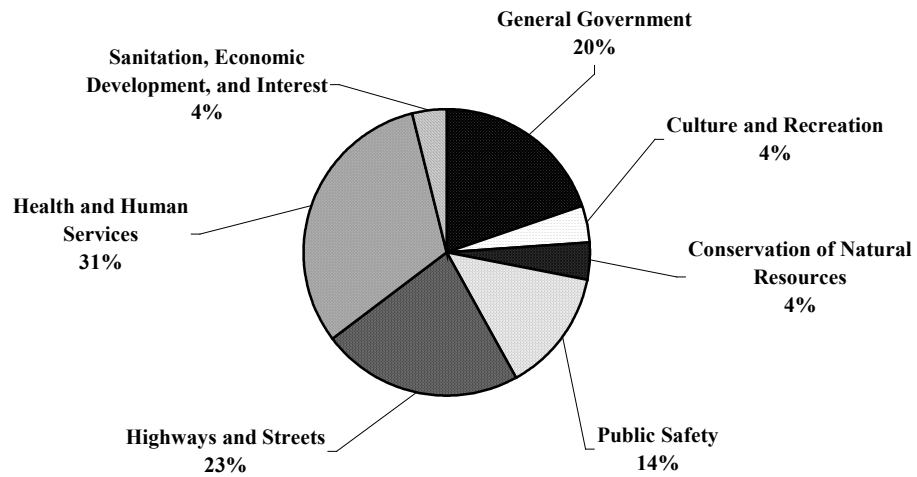
(Exhibit 2)
Changes in Watonwan County's Governmental Net Assets

	<u>2004</u>	<u>2003</u>
Revenues		
Program revenues		
Charges for services	\$ 1,194,437	\$ 1,867,581
Operating grants and contributions	4,900,115	5,792,743
Capital grants and contributions	73,100	524,326
General revenues		
Property taxes	4,710,566	4,393,773
Other	<u>1,618,493</u>	<u>1,861,235</u>
Total Revenues	<u>\$ 12,496,711</u>	<u>\$ 14,439,658</u>
Expenses		
General government	\$ 2,385,080	\$ 2,006,217
Public safety	1,665,523	1,568,240
Highways and streets	2,749,887	2,971,527
Sanitation	149,985	183,917
Human services	3,388,606	3,466,247
Health	381,661	384,726
Culture and recreation	507,225	492,348
Conservation of natural resources	490,801	714,711
Economic development	133,639	109,924
Interest	<u>187,644</u>	<u>144,199</u>
Total Expenses	<u>\$ 12,040,051</u>	<u>\$ 12,042,056</u>
Increase in Net Assets	\$ 456,660	\$ 2,397,602
Net Assets - January 1	<u>40,536,781</u>	<u>38,139,179</u>
Net Assets - December 31	<u><u>\$ 40,993,441</u></u>	<u><u>\$ 40,536,781</u></u>

SOURCES OF COUNTY REVENUES



WHERE COUNTY FUNDS ARE SPENT



(Unaudited)

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

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

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

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$8,644,809. The majority of this amount (\$5,965,943) constitutes unreserved fund balance, which is available for spending at the County's discretion. The remainder of fund balance is reserved to indicate this it is not available for new spending because it has already been committed for various reasons.

The General Fund is the chief operating fund of Watonwan County. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$2,740,071, while the total fund balance was \$2,954,018. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance and total fund balance to annual expenditures. Unreserved fund balance represents 58 percent of total General Fund expenditures for 2004, while total fund balance represents 62 percent of total General Fund expenditures. In 2004, the total fund balance in the General Fund increased by \$94,186, with unreserved fund balances increasing by \$189,607 and reserved fund balances decreasing by \$95,421. The primary reasons for the increase were revenues from an insurance dividend and settlement of a dispute with the County's insurer for payment of legal fees, which had been denied previously.

The Road and Bridge Fund's fund balance increased by \$241,513 in 2004. The main reason for the increase was a reduction in the amount of maintenance costs for the County Highway system.

In 2004, the Human Services Fund's fund balance decreased by \$71,307. While the fund incurred a deficit, it was considerably less than anticipated. Human Services has lost funding from the state, particularly in the area of the developmentally disabled, making the County financially responsible for costs that were formerly the state's. In order to lessen this impact on the local taxpayers, it was decided to utilize fund balance to offset some of these added costs. As stated previously, cost savings in other areas resulted in less of an impact on the fund balance than budgeted.

General Fund Budgetary Highlights

There were limited changes between original budget and the final budget. The actual revenues exceeded budgeted revenues by \$474,686. The largest variance was in miscellaneous revenues due to a dividend from workers' compensation and property/casualty insurance. Also, the County reached an agreement whereby Minnesota Counties Insurance Trust reimbursed the County for legal expenses incurred with the Amberfield litigation. The variance between budget and actual was relatively small in all departments.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets. The County's investment in capital assets for its governmental activities as of December 31, 2004, amount to \$36,555,027 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The total increase in the County's investment in capital assets for the current fiscal year was 1.9 percent. The major capital asset event in 2004 was additional infrastructure additions (primarily bridges and County State-Aid Highway roads).

Watonwan County's Governmental Capital Assets (Net of Depreciation)

	2004	2003
Land	\$ 695,771	\$ 695,771
Construction in progress	196,533	214,157
Land improvements	41,777	44,234
Buildings and improvements	5,437,439	5,597,395
Machinery, furniture, and equipment	1,808,608	2,096,409
Infrastructure	28,374,899	27,224,933
Total	<u>\$ 36,555,027</u>	<u>\$ 35,872,899</u>

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

Long-term debt. At the end of the current fiscal year, the County had total bonded debt and capital notes outstanding of \$4,557,647, which is backed by the full faith and credit of the government. Watonwan County's bonds are not rated.

Watonwan County's Governmental Outstanding Debt

	<u>2004</u>	<u>2003</u>
General Obligation Bonds and Capital Notes	<u>\$ 4,557,647</u>	<u>\$ 2,630,000</u>

The County's debt increased by \$1,927,647 during the fiscal year. The main reason for the increase was the issuance of refunding bonds.

Minnesota statutes limit the amount of debt that a county may levy to two percent of its total market value. As of the end of 2004, Watonwan County is well below the two percent debt limit imposed by state statutes.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

- Watonwan County's unemployment rate was 3.9 percent as of the end of 2004. This is slightly lower than the state-wide rate of 4.3 percent.
- Mortgage interest rates have continued to be low, causing many people to refinance their mortgages.

At the end of 2004, Watonwan County set its 2005 revenue and expenditure budgets. In doing so, it has appropriated \$294,571 from available fund balance to offset the difference between 2005 budgeted revenues and expenditures of \$13,376,935 and \$13,671,506, respectively.

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2004**

Assets

Cash and pooled investments	\$ 6,705,563
Cash with fiscal agent	2,058,781
Taxes receivable	
Prior	133,627
Special assessments receivable	
Prior	15,784
Noncurrent	515,107
Accounts receivable	239,217
Accrued interest receivable	11,526
Due from other governments	1,096,499
Inventories	156,534
Deferred debt issue costs	20,637
Capital assets	
Non-depreciable	892,304
Depreciable - net of accumulated depreciation	35,662,723
	<hr/>
Total Assets	\$ 47,508,302

Liabilities

Accounts payable	\$ 217,822
Salaries payable	105,250
Contracts payable	127,753
Due to other governments	88,189
Accrued interest payable	87,842
Unearned revenue	64,183
Long-term liabilities	
Due within one year	585,700
Due in more than one year	5,238,122
	<hr/>
Total Liabilities	\$ 6,514,861

Net Assets

Invested in capital assets - net of related debt	\$ 34,067,184
Restricted for	
General government	51,916
Public safety	5,680
Highways and streets	492,311
Culture and recreation	163,710
Conservation of natural resources	41,599
Debt service	2,331,461
Unrestricted	3,839,580
	<hr/>
Total Net Assets	\$ 40,993,441

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

			Program Revenues		Net (Expense)
		Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Change in Net Assets
	Expenses				
Functions/Programs					
Governmental activities					
General government	\$ 2,385,080	\$ 328,019	\$ 163,675	\$ 39,862	\$ (1,853,524)
Public safety	1,665,523	161,202	185,870	-	(1,318,451)
Highways and streets	2,749,887	160,448	2,387,715	33,238	(168,486)
Sanitation	149,985	4,558	185,732	-	40,305
Human services	3,388,606	273,034	1,683,872	-	(1,431,700)
Health	381,661	15,448	223,044	-	(143,169)
Culture and recreation	507,225	17,933	4,920	-	(484,372)
Conservation of natural resources	490,801	156,055	65,287	-	(269,459)
Economic development	133,639	77,740	-	-	(55,899)
Interest	187,644	-	-	-	(187,644)
Total governmental activities	\$ 12,040,051	\$ 1,194,437	\$ 4,900,115	\$ 73,100	\$ (5,872,399)
General Revenues					
Property taxes					\$ 4,710,566
Mortgage registry and deed tax					6,765
Grants and contributions not restricted to specific programs					1,234,655
Payments in lieu of taxes					5,682
Investment income					112,353
Miscellaneous					259,038
Total general revenues					\$ 6,329,059
Change in net assets					\$ 456,660
Net Assets - January 1					40,536,781
Net Assets - December 31					\$ 40,993,441

FUND FINANCIAL STATEMENTS

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	<u>General</u>	<u>Road and Bridge</u>
<u>Assets</u>		
Cash and pooled investments	\$ 3,059,339	\$ 893,209
Cash with fiscal agent	-	-
Taxes receivable		
Prior	67,560	13,182
Special assessments receivable		
Prior	7,187	263
Noncurrent	414,284	30,658
Accounts receivable	18,929	1,043
Accrued interest receivable	10,639	-
Due from other funds	3,159	18,982
Due from other governments	13,161	562,309
Inventories	-	156,534
Advances to other funds	46,309	-
Total Assets	<u>\$ 3,640,567</u>	<u>\$ 1,676,180</u>

EXHIBIT 3

Human Services	Debt Service	Other Governmental Funds	Total Governmental Funds
<hr/>	<hr/>	<hr/>	<hr/>
\$ 1,541,809	\$ 265,507	\$ 945,699	\$ 6,705,563
-	2,058,781	-	2,058,781
35,245	7,234	10,406	133,627
-	-	8,334	15,784
-	-	70,165	515,107
219,245	-	-	239,217
-	-	887	11,526
-	-	-	22,141
285,152	234,500	1,377	1,096,499
-	-	-	156,534
-	-	-	46,309
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\$ 2,081,451	\$ 2,566,022	\$ 1,036,868	\$ 11,001,088

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	<u>General</u>	<u>Road and Bridge</u>
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 46,913	\$ 25,531
Salaries payable	44,749	17,533
Contracts payable	-	127,753
Due to other funds	16,525	-
Due to other governments	36,204	5,725
Matured interest payable	-	-
Deferred revenue - unavailable	478,279	558,611
Deferred revenue - unearned	63,879	142
Advance from other funds	-	-
Total Liabilities	\$ 686,549	\$ 735,295
Fund Balances		
Reserved for		
Debt service	\$ -	\$ -
Inventories	-	156,534
Law library	47,080	-
Recorder's equipment	4,836	-
Boat and water	69	-
Sheriff's contingency	5,611	-
Highway projects	-	85,894
Future projects	6,363	-
Donations	-	-
ISTS loans	118,563	-
Water plan	29,009	-
HRA special benefits levy	2,416	-
Unreserved		
Designated for cash flows	1,604,471	369,546
Designated for compensated absences	287,899	178,838
Designated for debt service	-	-
Undesignated	847,701	150,073
Unreserved, reported in nonmajor special revenue funds	-	-
Total Fund Balances	\$ 2,954,018	\$ 940,885
Total Liabilities and Fund Balances	\$ 3,640,567	\$ 1,676,180

EXHIBIT 3
(Continued)

Human Services	Debt Service	Other Governmental Funds	Total Governmental Funds
\$ 130,123	\$ -	\$ 15,255	\$ 217,822
37,239	-	5,729	105,250
-	-	-	127,753
3,159	-	2,457	22,141
39,782	-	6,478	88,189
-	2,965	-	2,965
329,614	231,531	83,632	1,681,667
-	65	97	64,183
-	-	46,309	46,309
\$ 539,917	\$ 234,561	\$ 159,957	\$ 2,356,279
\$ -	\$ 2,058,781	\$ -	\$ 2,058,781
-	-	-	156,534
-	-	-	47,080
-	-	-	4,836
-	-	-	69
-	-	-	5,611
-	-	-	85,894
-	-	-	6,363
-	-	163,710	163,710
-	-	-	118,563
-	-	-	29,009
-	-	-	2,416
835,719	-	-	2,809,736
221,705	-	-	688,442
-	272,680	-	272,680
484,110	-	-	1,481,884
-	-	713,201	713,201
\$ 1,541,534	\$ 2,331,461	\$ 876,911	\$ 8,644,809
\$ 2,081,451	\$ 2,566,022	\$ 1,036,868	\$ 11,001,088

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 3A

**RECONCILIATION OF THE FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2004**

Fund balances - total governmental funds (Exhibit 3)		\$ 8,644,809
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		36,555,027
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		1,681,667
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (4,385,000)	
Capital notes	(210,000)	
Accrued interest payable	(87,842)	
Matured interest payable	2,965	
Deferred debt issue costs	20,637	
Discount on bonds	37,353	
Loans payable	(524,890)	
Compensated absences	(741,285)	(5,888,062)
Net assets of governmental activities (Exhibit 1)		<u>\$ 40,993,441</u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>General</u>	<u>Road and Bridge</u>
Revenues		
Taxes	\$ 2,435,448	\$ 482,601
Special assessments	66,724	11,631
Licenses and permits	11,541	-
Intergovernmental	1,131,304	2,972,601
Charges for services	537,554	197,859
Fines and forfeits	2,364	-
Gifts and contributions	-	-
Investment earnings	112,353	-
Miscellaneous	358,750	215,409
Total Revenues	\$ 4,656,038	\$ 3,880,101
Expenditures		
Current		
General government	\$ 2,219,793	\$ -
Public safety	1,678,577	-
Highways and streets	-	3,627,483
Sanitation	-	-
Human services	-	-
Health	-	-
Culture and recreation	69,479	-
Conservation of natural resources	499,817	-
Economic development	132,859	-
Capital outlay	81,585	-
Debt service		
Principal retirement	22,068	-
Interest	22,881	-
Bond issue costs	-	-
Administrative charges	-	-
Total Expenditures	\$ 4,727,059	\$ 3,627,483
Excess of Revenues Over (Under) Expenditures	\$ (71,021)	\$ 252,618
Other Financing Sources (Uses)		
Transfers in	\$ 97,870	\$ 49,916
Transfers out	(56,173)	-
Proceeds from loans	123,510	-
Proceeds from sale of refunding bonds	-	-
Discount on bonds/notes issued	-	-
Total Other Financing Sources (Uses)	\$ 165,207	\$ 49,916
Net Change in Fund Balances	\$ 94,186	\$ 302,534
Fund Balance - January 1	2,859,832	699,372
Increase (decrease) in reserved for inventories	-	(61,021)
Fund Balance - December 31	\$ 2,954,018	\$ 940,885

EXHIBIT 4

Human Services	Debt Service	Other Governmental Funds	Total Governmental Funds
\$ 1,189,845	\$ 253,732	\$ 360,520	\$ 4,722,146
-	-	186,814	265,169
-	-	-	11,541
2,292,291	53,949	145,388	6,595,533
58,858	-	4,907	799,178
-	-	9,350	11,714
-	-	4,920	4,920
-	-	2,949	115,302
217,276	-	4,985	796,420
\$ 3,758,270	\$ 307,681	\$ 719,833	\$ 13,321,923
\$ -	\$ -	\$ -	\$ 2,219,793
-	-	-	1,678,577
-	-	-	3,627,483
-	-	150,070	150,070
3,349,088	-	-	3,349,088
382,619	-	-	382,619
-	-	457,228	526,707
-	-	17,942	517,759
-	-	-	132,859
-	-	-	81,585
-	150,000	-	172,068
-	142,040	-	164,921
-	21,062	-	21,062
-	273	-	273
\$ 3,731,707	\$ 313,375	\$ 625,240	\$ 13,024,864
\$ 26,563	\$ (5,694)	\$ 94,593	\$ 297,059
\$ -	\$ -	\$ 6,257	\$ 154,043
(97,870)	-	-	(154,043)
-	-	-	123,510
-	2,115,000	-	2,115,000
-	(38,122)	-	(38,122)
\$ (97,870)	\$ 2,076,878	\$ 6,257	\$ 2,200,388
\$ (71,307)	\$ 2,071,184	\$ 100,850	\$ 2,497,447
1,612,841	260,277	776,061	6,208,383
-	-	-	(61,021)
\$ 1,541,534	\$ 2,331,461	\$ 876,911	\$ 8,644,809

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 4A

**RECONCILIATION OF THE CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

Net change in fund balances - total governmental funds (Exhibit 4)	\$	2,497,447
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Amounts reported for governmental activities in the statement of activities are different because:

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(557,620)
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Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay expenditures	\$ 2,008,182	
Net book value of assets disposed of	(12,115)	
Depreciation expense	<u>(1,313,939)</u>	682,128

The issuance of long-term debt (such as capital notes and loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the net effect of issuance costs, 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		
Refunding bonds issued	\$ (2,115,000)	
Discount on debt	38,122	
Deferred debt issue costs	21,062	
Loans issued	<u>(123,510)</u>	(2,179,326)

Repayment of debt principal		172,068
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Amortization of discount on debt and issuance costs		(1,194)
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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.

Inventories	\$ (61,021)	
Accrued interest payable	(21,256)	
Compensated absences payable	<u>(74,566)</u>	<u>(156,843)</u>

Change in net assets of governmental activities (Exhibit 2)	\$	<u>456,660</u>
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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 5

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 2,600,214	\$ 2,309,067	\$ 2,435,448	\$ 126,381
Special assessments	-	-	66,724	66,724
Licenses and permits	10,630	10,630	11,541	911
Intergovernmental	1,020,528	1,065,013	1,131,304	66,291
Charges for services	485,575	557,237	537,554	(19,683)
Fines and forfeits	750	750	2,364	1,614
Investment earnings	153,000	153,000	112,353	(40,647)
Miscellaneous	85,655	85,655	358,750	273,095
Total Revenues	\$ 4,356,352	\$ 4,181,352	\$ 4,656,038	\$ 474,686
Expenditures				
Current				
General government				
Commissioners	\$ 162,790	\$ 162,790	\$ 189,353	\$ (26,563)
Courts	20,000	20,000	21,156	(1,156)
Law library	12,000	12,000	12,681	(681)
Victim witness coordinator	48,864	48,864	37,329	11,535
County auditor	199,391	199,391	189,691	9,700
License bureau	74,298	74,298	73,973	325
County treasurer	116,226	116,226	103,397	12,829
County assessor	198,582	198,582	194,692	3,890
Elections	8,850	8,850	8,800	50
Central services	67,250	67,250	55,239	12,011
Personnel	66,803	66,803	62,912	3,891
Information services	-	-	26,976	(26,976)
Attorney	234,689	234,689	222,996	11,693
Recorder	129,870	129,870	138,006	(8,136)
Buildings and plant	218,413	218,413	227,840	(9,427)
Transit	220,242	220,242	233,557	(13,315)
Veterans service officer	74,720	74,720	87,157	(12,437)
Appropriations - general government	-	-	7,412	(7,412)
Other general government	258,671	258,671	326,626	(67,955)
Total general government	\$ 2,111,659	\$ 2,111,659	\$ 2,219,793	\$ (108,134)
Public safety				
Sheriff	\$ 1,069,501	\$ 1,069,501	\$ 971,586	\$ 97,915
Emergency services	26,740	26,740	55,047	(28,307)
Coroner	7,800	7,800	2,873	4,927
County jail	357,618	357,618	400,899	(43,281)
Probation and parole	209,096	209,096	248,172	(39,076)
Total public safety	\$ 1,670,755	\$ 1,670,755	\$ 1,678,577	\$ (7,822)

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**EXHIBIT 5
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Culture and recreation				
Historical society	\$ 29,000	\$ 29,000	\$ 29,000	\$ -
Parks	15,500	15,500	23,660	(8,160)
Snowmobile trails	-	-	16,819	(16,819)
Total culture and recreation	\$ 44,500	\$ 44,500	\$ 69,479	\$ (24,979)
Conservation of natural resources				
Cooperative extension	\$ 75,890	\$ 75,890	\$ 77,998	\$ (2,108)
Soil and water conservation	45,000	45,000	45,000	-
Agricultural society/County fair	39,500	39,500	41,457	(1,957)
Water planning	70,500	70,500	42,472	28,028
CWP project	203,000	203,000	109,441	93,559
Environmental services	78,299	78,299	77,961	338
Septic loan program	-	-	105,488	(105,488)
Total conservation of natural resources	\$ 512,189	\$ 512,189	\$ 499,817	\$ 12,372
Economic development				
Job training and employment	\$ 71,662	\$ 71,662	\$ 76,347	\$ (4,685)
Appropriations - economic development	-	-	2,425	(2,425)
Other	50,000	50,000	54,087	(4,087)
Total economic development	\$ 121,662	\$ 121,662	\$ 132,859	\$ (11,197)
Capital outlay				
General government	\$ 135,000	\$ 135,000	\$ 81,585	\$ 53,415
Debt service				
Principal retirement	\$ -	\$ -	\$ 22,068	\$ (22,068)
Interest	\$ -	\$ -	\$ 22,881	\$ (22,881)
Total Expenditures	\$ 4,595,765	\$ 4,595,765	\$ 4,727,059	\$ (131,294)
Excess of Revenues Over (Under) Expenditures	\$ (239,413)	\$ (414,413)	\$ (71,021)	\$ 343,392
Other Financing Sources (Uses)				
Transfers in	\$ 96,000	\$ 96,000	\$ 97,870	\$ 1,870
Transfers out	-	-	(56,173)	(56,173)
Proceeds from loans	-	175,000	123,510	(51,490)
Total Other Financing Sources (Uses)	\$ 96,000	\$ 271,000	\$ 165,207	\$ (105,793)

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

***EXHIBIT 5
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Net Change in Fund Balance	\$ (143,413)	\$ (143,413)	\$ 94,186	\$ 237,599
Fund Balance - January 1	<u>2,859,832</u>	<u>2,859,832</u>	<u>2,859,832</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 2,716,419</u>	<u>\$ 2,716,419</u>	<u>\$ 2,954,018</u>	<u>\$ 237,599</u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 6

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 544,091	\$ 483,207	\$ 482,601	\$ (606)
Special assessments	-	-	11,631	11,631
Intergovernmental	3,058,514	3,268,320	2,972,601	(295,719)
Charges for services	140,000	140,000	197,859	57,859
Miscellaneous	112,594	112,594	215,409	102,815
Total Revenues	\$ 3,855,199	\$ 4,004,121	\$ 3,880,101	\$ (124,020)
Expenditures				
Current				
Highways and streets				
Administration	\$ 276,031	\$ 276,031	\$ 349,810	\$ (73,779)
Maintenance	1,081,654	1,230,576	965,843	264,733
Construction	1,622,481	1,622,481	1,500,022	122,459
Equipment maintenance and shop	687,832	687,832	662,286	25,546
Other	193,560	193,560	149,522	44,038
Total Expenditures	\$ 3,861,558	\$ 4,010,480	\$ 3,627,483	\$ 382,997
Excess of Revenues Over (Under)				
Expenditures	\$ (6,359)	\$ (6,359)	\$ 252,618	\$ 258,977
Other Financing Sources (Uses)				
Transfers in	12,000	12,000	49,916	37,916
Net Change in Fund Balance	\$ 5,641	\$ 5,641	\$ 302,534	\$ 296,893
Fund Balance - January 1	699,372	699,372	699,372	-
Increase (decrease) in reserved for inventories	-	-	(61,021)	(61,021)
Fund Balance - December 31	\$ 705,013	\$ 705,013	\$ 940,885	\$ 235,872

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 7

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 1,365,857	\$ 1,187,185	\$ 1,189,845	\$ 2,660
Intergovernmental	2,047,819	2,226,491	2,292,291	65,800
Charges for services	34,664	34,664	58,858	24,194
Miscellaneous	237,700	237,700	217,276	(20,424)
Total Revenues	\$ 3,686,040	\$ 3,686,040	\$ 3,758,270	\$ 72,230
Expenditures				
Current				
Human services				
Income maintenance	\$ 768,692	\$ 768,692	\$ 830,841	\$ (62,149)
Social services	2,660,284	2,660,284	2,518,247	142,037
Total human services	\$ 3,428,976	\$ 3,428,976	\$ 3,349,088	\$ 79,888
Health				
Community health services	417,352	417,352	382,619	34,733
Total Expenditures	\$ 3,846,328	\$ 3,846,328	\$ 3,731,707	\$ 114,621
Excess of Revenues Over (Under) Expenditures	\$ (160,288)	\$ (160,288)	\$ 26,563	\$ 186,851
Other Financing Sources (Uses)				
Transfers out	-	-	(97,870)	(97,870)
Net Change in Fund Balance	\$ (160,288)	\$ (160,288)	\$ (71,307)	\$ 88,981
Fund Balance - January 1	1,612,841	1,612,841	1,612,841	-
Fund Balance - December 31	\$ 1,452,553	\$ 1,452,553	\$ 1,541,534	\$ 88,981

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

EXHIBIT 8

**STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2004**

Assets

Cash and pooled investments	<u>\$ 281,247</u>
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Liabilities

Due to other governments	<u>\$ 281,247</u>
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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004**

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Joint Ventures

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

B. Basic Financial Statements

1. County-Wide Statements

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. County-Wide Statements (Continued)

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

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

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

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

Additionally, the County reports the following fund types:

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

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

C. Measurement Focus and Basis of Accounting

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Watonwan County considers all revenues to be *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 to be 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, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2004 were \$112,353.

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

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

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either an "interfund receivable/payable" (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 fund balance reserve 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 on 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.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Inventories

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

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

4. Capital Assets

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

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

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

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Compensated Absences

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

6. Deferred Revenue

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

7. Long-Term Obligations

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

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Fund Equity

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

9. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

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

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

The appropriated budget is prepared by fund, function, and department. Transfers of appropriations within a department and between departments require approval of the County Board. The legal level of budgetary control--the level at which expenditures may not legally exceed appropriations--is the department level. The Board made some supplemental budgetary appropriations throughout the year; however, none were material.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

2. Stewardship, Compliance, and Accountability

A. Budgetary Information (Continued)

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

B. Excess of Expenditures Over Budget

The funds shown below had expenditures in excess of budget for the year ended December 31, 2004.

	<u>Expenditures</u>		<u>Budget</u>		<u>Excess</u>
General	\$ 4,727,059	\$	4,595,765	\$	131,294
Debt Service	313,375		307,325		6,050

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

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Primary government	
Cash and pooled investments	\$ 6,705,563
Fiduciary funds--agency funds	
Cash and pooled investments	<u>281,246</u>
 Total Cash and Investments	 \$ 6,986,809
 Primary government	
Cash with fiscal agent	<u>2,058,781</u>
 Total	 <u>\$ 9,045,590</u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the County Treasurer. At December 31, 2004, the carrying amount of the County's deposits totaled \$6,986,809, of which \$6,820,785 was cash deposits and \$166,024 was invested in certificates of deposit. The bank balance deposit amount was \$7,253,105. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral.

Following is a summary of the deposits covered by insurance or collateral at December 31, 2004.

	<u>Bank Balance</u>
Covered Deposits	
Insured, or collateralized with securities held by the County or its agent in the County's name	\$ 231,081
Collateralized with securities held by the pledging financial institution's agent in the County's name	<u>7,022,024</u>
Total covered deposits	\$ 7,253,105
Uncollateralized	<u>-</u>
Total	<u>\$ 7,253,105</u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2004, for the County are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Taxes - prior	\$ 133,627	\$ -
Special assessments - prior	15,784	-
Special assessments - noncurrent	515,107	425,928
Accounts	239,217	-
Accrued interest	11,526	-
Due from other governments	1,096,499	226,000
Total	<u>\$ 2,011,760</u>	<u>\$ 651,928</u>

3. Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 695,771	\$ -	\$ -	\$ 695,771
Construction in progress	214,157	44,368	61,992	196,533
Total capital assets not depreciated	<u>\$ 909,928</u>	<u>\$ 44,368</u>	<u>\$ 61,992</u>	<u>\$ 892,304</u>
Capital assets depreciated				
Buildings	\$ 7,007,352	\$ 4,035	\$ -	\$ 7,011,387
Land improvements	49,128	-	-	49,128
Machinery, furniture, and equipment	4,807,335	145,751	207,712	4,745,374
Infrastructure	35,408,407	1,876,020	-	37,284,427
Total capital assets depreciated	<u>\$ 47,272,222</u>	<u>\$ 2,025,806</u>	<u>\$ 207,712</u>	<u>\$ 49,090,316</u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	\$ 1,409,957	\$ 163,991	\$ -	\$ 1,573,948
Land improvements	4,894	2,457	-	7,351
Machinery, furniture, and equipment	2,710,926	421,437	195,597	2,936,766
Infrastructure	8,183,474	726,054	-	8,909,528
Total accumulated depreciation	\$ 12,309,251	\$ 1,313,939	\$ 195,597	\$ 13,427,593
Total capital assets depreciated, net	\$ 34,962,971	\$ 711,867	\$ 12,115	\$ 35,662,723
Capital Assets, Net	\$ 35,872,899	\$ 756,235	\$ 74,107	\$ 36,555,027

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

Governmental Activities	
General government	\$ 232,657
Public safety	70,721
Highways and streets, including depreciation of infrastructure assets	946,584
Sanitation	2,186
Human services	61,791
Total Depreciation Expense	\$ 1,313,939

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2004, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Human Services	\$ 3,159
Road and Bridge	General	\$ 16,525
	County Ditch	1,893
	Solid Waste	564
Total Due to Road and Bridge Fund		\$ 18,982
Total Due To/From Other Funds		\$ 22,141

2. Advances To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	County Ditch	\$ 46,309

3. Interfund Transfers

Transfers Out	Transfers In	Amount	Purpose
General	Road and Bridge	\$ 42,460	Equipment
	Road and Bridge	7,456	Allocated interest
	Total Road and Bridge	\$ 49,916	
	County Library	2,423	Allocated interest
	County Ditch	3,834	Allocated interest
Total Transfers Out of General Fund		\$ 56,173	
Human Services	General	97,870	2004 rent
Total Transfers In/Out		\$ 154,043	

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Long-Term Debt

<u>Types of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amount</u>	<u>Interest Rates (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2004</u>
G.O. Capital Improvement Bonds, Series 2000A	2007	\$ 85,000 - \$2,095,000	5.625 - 6.00	\$ 2,500,000	\$ 2,270,000
G.O. Capital Improvement Refunding Bonds, Series 2004A	2021	\$120,000 - \$190,000	2.75 - 4.50	2,115,000	2,115,000
G.O. Capital Notes, Series 2003	2007	\$70,000	3.00	<u>280,000</u>	<u>210,000</u>
Total General Obligation Bonds				<u>\$ 4,895,000</u>	\$ 4,595,000
Less: unamortized discount					<u>(37,353)</u>
Total General Obligation Bonds, Net					<u>\$ 4,557,647</u>

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

Loans Payable

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

<u>Types of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amount</u>	<u>Interest Rates (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2004</u>
Clean Water Partnership Project, SFR0047	2014	\$26,928	2.00	\$ 485,926	\$ 463,858
Watonwan Watershed Partnership Project, SFR0108	2017	\$13,399	2.00	<u>61,032</u>	<u>61,032</u>
Total Loans				<u>\$ 546,958</u>	<u>\$ 524,890</u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Debt Service Requirements

Debt service requirements at December 31, 2004, were as follows:

Year Ending December 31	General Obligation Bonds		Capital Notes	
	Principal	Interest	Principal	Interest
2005	\$ 85,000	\$ 204,254	\$ 70,000	\$ 6,300
2006	90,000	206,153	70,000	4,200
2007	2,095,000	142,859	70,000	2,100
2008	120,000	80,457	-	-
2009	125,000	76,933	-	-
2010-2014	675,000	317,952	-	-
2015-2019	820,000	174,646	-	-
2020-2021	375,000	16,987	-	-
Total	<u>\$ 4,385,000</u>	<u>\$ 1,220,241</u>	<u>\$ 210,000</u>	<u>\$ 12,600</u>

Year Ending December 31	Loans Payable	
	Principal	Interest
2005	\$ 44,801	\$ 9,055
2006	45,702	8,154
2007	46,620	7,235
2008	47,558	6,298
2009	48,513	5,342
2010-2014	230,664	11,686
Total	<u>\$ 463,858</u>	<u>\$ 47,770</u>

The debt service requirements for the loan from the Minnesota Pollution Control Agency in the amount of \$61,032 is not known as of December 31, 2004.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Debt Service Requirements (Continued)

Crossover Refunding of Bonds

In 2004 \$2,115,000 General Obligation Capital Improvement Refunding Bonds were sold to refund the following bond issue:

<u>Call Date</u>	<u>Issue</u>	<u>Maturing</u>	<u>Totaling</u>
February 1, 2007	\$2,500,000 G.O. Capital Improvement Bonds, Series 2000A	2008 - 2021	\$ 2,000,000

The proceeds from the refunding bonds were placed with an escrow agent in an irrevocable trust from which U.S. Treasury Securities were purchased. The County is responsible for the principal and interest payments on the original issue through 2007. The interest payments on the refunding bonds will be paid by the escrow agent through 2007 from earnings on the escrow account. Principal balances of both bond issues will be shown in the statement of net assets until the call date of the refunded bonds, at which time the 2000 Series bonds will be considered defeased and the liability for those bonds will be removed from the statement of net assets.

The County crossover refunded the 2000 Capital Improvement Bonds to reduce its total debt service payments in the years 2008 to 2021 by \$160,678 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$111,522.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
G.O. Capital Improvement Bonds, Series 2000A	\$ 2,350,000	\$ -	\$ 80,000	\$ 2,270,000	\$ 85,000
G. O. Capital Improvement Refunding Bonds, Series 2004A	-	2,115,000	-	2,115,000	-
G.O. Capital Notes, Series 2003	280,000	-	70,000	210,000	70,000
Less: unamortized discount on bonds	-	(38,122)	(769)	(37,353)	-
Total bonds payable	\$ 2,630,000	\$ 2,076,878	\$ 149,231	\$ 4,557,647	\$ 155,000
Loans payable	423,448	123,510	22,068	524,890	44,801
Compensated absences	666,719	74,566	-	741,285	385,899
Long-Term Liabilities	<u>\$ 3,720,167</u>	<u>\$ 2,274,954</u>	<u>\$ 171,299</u>	<u>\$ 5,823,822</u>	<u>\$ 585,700</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 Insurance Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of the 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. The MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$720,000 per claim in 2004 and \$760,000 per claim in 2005. Should the MCIT Workers' Compensation Division liabilities exceed assets, the MCIT may assess the County in a method and amount to be determined by the MCIT.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

D. Risk Management (Continued)

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

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

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

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution and have direct contact with inmates are covered by the Public Employees Correctional Fund.

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans (Continued)

Funding Policy

Pension benefits are funded from member and employer contributions and income from investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 6.20 percent of their annual covered salary. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

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

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53
Public Employees Police and Fire Fund	9.30
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2004, 2003, and 2002, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund, were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2004	\$ 215,329	\$ 38,394	\$ 14,177
2003	208,868	38,929	10,797
2002	194,867	36,099	10,168

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

4. Employee Retirement Systems and Pension Plans (Continued)

B. Defined Contribution Plan

The Public Employees Defined Contribution plan is a multiple-employer deferred compensation plan for local government officials, except elected county sheriffs. The plan is established and administered in accordance with Minn. Stat. ch. 353D. The plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax-deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minn. Stat. § 353D.03 specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary, which is matched by the employer.

No vesting period is required to receive benefits in the Defined Contribution Plan. At the time of retirement or termination, the market value of the member's account is distributed to the member or another qualified plan.

The County's contributions for the years ending December 31, 2004, 2003, and 2002, were \$6,746, \$5,795, and \$5,278, respectively, equal to the contractually required contributions for each year as set by state statute.

5. Summary of Significant Contingencies and Other Items

A. Subsequent Event

On May 17, 2005, the County approved the issuance of General Obligation Capital Improvement Plan Bonds, Series 2005A, of \$845,000 for the remodel and expansion of the detention facility and for replacement of the courthouse phone system. The bond sale is scheduled for August 16, 2005, and the issue date is September 1, 2005.

B. 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

B. 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.

C. Joint Ventures

Red Rock Rural Water System

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

The governing body is composed of nine members appointed to three-year terms by the District Court. Each county is responsible for levying and collecting the special assessments from the benefited properties within the county. The bond issue and notes payable are shown as long-term debt in the financial statements of the Red Rock Rural Water System. According to the latest available financial statements, outstanding bonds at December 31, 2003, amount to \$7,115,000; and notes payable were \$55,437. The Water System's retained earnings increased by \$3,876 in 2003. Complete financial information can be obtained from the Red Rock Rural Water System, Jeffers, Minnesota 56145.

Three Counties for Kids Collaborative

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

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Three Counties for Kids Collaborative (Continued)

Control of the Collaborative is vested in a Board of Directors consisting of nine members. Brown County Family Services acts as fiscal agent for the Collaborative. The Collaborative is financed by Local Collaborative Time Study (LCTS) funds and the children's mental health combined grant, which comprises state and federal dollars. During 2004, Watonwan County made no contributions to the Collaborative. Any withdrawing party remains liable for fiscal obligations incurred prior to the effective date of withdrawal and shall not be entitled to any compensation as long as the Collaborative continues in existence. Should the Collaborative cease to exist, all property, real and personal, at the time of the termination shall be distributed by the Three Counties for Kids Collaborative Board of Directors. Complete financial information may be obtained by contacting the Brown County Family Services Department, New Ulm, Minnesota 56073.

Vision for Family and Community Collaborative

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

Control of the Collaborative is vested in a Joint Powers Board. The Joint Powers Board is composed of nine members. Watonwan County Human Services acts as fiscal agent for the Collaborative. The Collaborative is financed by LCTS funds. During 2004, Watonwan County made no contributions to the Collaborative. Any withdrawing party remains fiscally liable until the effective date of withdrawal. Should the Collaborative cease to exist, all property, real and personal, held by the Joint Powers Board at the time of the termination shall be distributed by resolution of the Board in accordance with law and in a manner to best accomplish the purpose of the Collaborative.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

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

D. Jointly-Governed Organizations

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

The Minnesota River Board promotes orderly water quality improvement and management of the Minnesota River Watershed. During the year, the County made contributions of \$940 to the Board.

The South Central Minnesota County Comprehensive Water Planning Project provides the preparation of comprehensive water plans for the participating counties. During the year, the County made no contributions to the Water Planning Project through Minnesota State University in Mankato.

The Greater Blue Earth River Basin Alliance is a joint powers of counties and soil and water districts that combines project and implementation efforts to improve water quality in the Greater Blue Earth River Basin. During the year, the County paid \$1,000 to the Alliance.

The Minnesota Counties Computer Cooperative provides computer programming services for the County. During the year, the County purchased \$33,138 of services.

The South Central Regional Tobacco Prevention Project “Big 8 Prevention Pack” provides strategies/activities to address youth tobacco use and access to tobacco, change community norms regarding tobacco use, and develop/promote diversion programs for youth already addicted to tobacco. During the year, the County made no contributions to the Project.

The South Central Regional HIV/STD Counseling and Testing Site Joint Powers Board provides services related to sexually transmitted diseases to the participating counties. During the year, the County made no contributions to the Board.

The South Central Regional IMMTRACK (immunization registry) Joint Powers Board promotes the implementation and maintenance of a regional immunization information system to ensure age-appropriate immunizations through complete and accurate records. During the year, the County paid \$1,754 to the Board.

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

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

E. Agricultural Best Management Loan Program

The County has entered into an agreement with the Minnesota Department of Agriculture and a local lending institution to jointly administer a loan program to individuals to implement projects that prevent or mitigate non-point source water pollution. While the County is not liable for the repayment of the loan in any manner, it does have certain responsibilities under the agreement. The County has met those responsibilities for 2004.

F. 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 2004 is \$72,793. The proportionate share of the counties may change for years 2005 through 2024 if there are changes in the taxable market value over the 2001 taxable market value.

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

OTHER GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

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

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

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

Statement 1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	Special Revenue Funds			Total Nonmajor Governmental Funds
	County Library	County Ditch	Solid Waste	
<u>Assets</u>				
Cash and pooled investments	\$ 422,193	\$ 187,661	\$ 335,845	\$ 945,699
Taxes receivable				
Prior	10,088	-	318	10,406
Special assessments receivable				
Prior	-	506	7,828	8,334
Noncurrent	-	70,165	-	70,165
Accrued interest receivable	887	-	-	887
Due from other governments	-	1,377	-	1,377
Total Assets	\$ 433,168	\$ 259,709	\$ 343,991	\$ 1,036,868
<u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ 2,927	\$ -	\$ 12,328	\$ 15,255
Salaries payable	5,729	-	-	5,729
Due to other funds	-	1,893	564	2,457
Due to other governments	-	6,478	-	6,478
Deferred revenue - unavailable	7,739	70,232	5,661	83,632
Deferred revenue - unearned	95	-	2	97
Advance from other funds	-	46,309	-	46,309
Total Liabilities	\$ 16,490	\$ 124,912	\$ 18,555	\$ 159,957
Fund Balances				
Reserved for donations	\$ 163,710	\$ -	\$ -	\$ 163,710
Unreserved				
Designated for cash flows	245,731	-	5,473	251,204
Designated for compensated absences	7,237	-	-	7,237
Undesignated	-	134,797	319,963	454,760
Total Fund Balances	\$ 416,678	\$ 134,797	\$ 325,436	\$ 876,911
Total Liabilities and Fund Balances	\$ 433,168	\$ 259,709	\$ 343,991	\$ 1,036,868

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

Statement 2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Special Revenue Funds			Total Nonmajor Governmental Funds
	County Library	County Ditch	Solid Waste	
Revenues				
Taxes	\$ 349,655	\$ -	\$ 10,865	\$ 360,520
Special assessments	-	51,673	135,141	186,814
Intergovernmental	93,389	-	51,999	145,388
Charges for services	4,907	-	-	4,907
Fines and forfeits	9,350	-	-	9,350
Gifts and contributions	4,920	-	-	4,920
Investment earnings	2,949	-	-	2,949
Miscellaneous	427	-	4,558	4,985
Total Revenues	\$ 465,597	\$ 51,673	\$ 202,563	\$ 719,833
Expenditures				
Current				
Sanitation	\$ -	\$ -	\$ 150,070	\$ 150,070
Culture and recreation	457,228	-	-	457,228
Conservation of natural resources	-	17,942	-	17,942
Total Expenditures	\$ 457,228	\$ 17,942	\$ 150,070	\$ 625,240
Excess of Revenues Over (Under) Expenditures	\$ 8,369	\$ 33,731	\$ 52,493	\$ 94,593
Other Financing Sources (Uses)				
Transfers in	2,423	3,834	-	6,257
Net Change in Fund Balance	\$ 10,792	\$ 37,565	\$ 52,493	\$ 100,850
Fund Balance - January 1	405,886	97,232	272,943	776,061
Fund Balance - December 31	\$ 416,678	\$ 134,797	\$ 325,436	\$ 876,911

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

Statement 3

**BUDGETARY COMPARISON SCHEDULE
COUNTY LIBRARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 393,767	\$ 349,586	\$ 349,655	\$ 69
Intergovernmental	48,799	92,980	93,389	409
Charges for services	10,000	10,000	4,907	(5,093)
Fines and forfeits	11,000	11,000	9,350	(1,650)
Gifts and contributions	800	800	4,920	4,120
Investment earnings	4,200	4,200	2,949	(1,251)
Miscellaneous	-	-	427	427
Total Revenues	\$ 468,566	\$ 468,566	\$ 465,597	\$ (2,969)
Expenditures				
Current				
Culture and recreation				
County library	468,466	468,466	457,228	11,238
Excess of Revenues Over (Under)				
Expenditures	\$ 100	\$ 100	\$ 8,369	\$ 8,269
Other Financing Sources (Uses)				
Transfers in	-	-	2,423	2,423
Net Change in Fund Balance	\$ 100	\$ 100	\$ 10,792	\$ 10,692
Fund Balance - January 1	405,886	405,886	405,886	-
Fund Balance - December 31	\$ 405,986	\$ 405,986	\$ 416,678	\$ 10,692

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

Statement 4

**BUDGETARY COMPARISON SCHEDULE
COUNTY DITCH FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Special assessments	\$ 19,500	\$ 19,500	\$ 51,673	\$ 32,173
Expenditures				
Current				
Conservation of natural resources				
Other (ditch repairs)	19,500	19,500	17,942	1,558
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ -	\$ 33,731	\$ 33,731
Other Financing Sources (Uses)				
Transfers in	-	-	3,834	3,834
Net Change in Fund Balance	\$ -	\$ -	\$ 37,565	\$ 37,565
Fund Balance - January 1	97,232	97,232	97,232	-
Fund Balance - December 31	<u>\$ 97,232</u>	<u>\$ 97,232</u>	<u>\$ 134,797</u>	<u>\$ 37,565</u>

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

Statement 5

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 12,234	\$ 10,850	\$ 10,865	\$ 15
Special assessments	145,000	145,000	135,141	(9,859)
Intergovernmental	45,295	46,679	51,999	5,320
Miscellaneous	3,500	3,500	4,558	1,058
Total Revenues	\$ 206,029	\$ 206,029	\$ 202,563	\$ (3,466)
Expenditures				
Current				
Sanitation				
SCORE	187,021	187,021	150,070	36,951
Net Change in Fund Balance	\$ 19,008	\$ 19,008	\$ 52,493	\$ 33,485
Fund Balance - January 1	272,943	272,943	272,943	-
Fund Balance - December 31	\$ 291,951	\$ 291,951	\$ 325,436	\$ 33,485

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

Statement 6

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 285,960	\$ 253,876	\$ 253,732	\$ (144)
Intergovernmental	21,365	53,449	53,949	500
Total Revenues	\$ 307,325	\$ 307,325	\$ 307,681	\$ 356
Expenditures				
Debt service				
Principal retirement	\$ 150,000	\$ 150,000	\$ 150,000	\$ -
Interest	157,052	157,052	142,040	15,012
Bond issuance costs	-	-	21,062	(21,062)
Administrative charges	273	273	273	-
Total Expenditures	\$ 307,325	\$ 307,325	\$ 313,375	\$ (6,050)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (5,694)	\$ (5,694)
Other Financing Sources (Uses)				
Proceeds from sale of refunding bonds	\$ -	\$ -	\$ 2,115,000	\$ 2,115,000
Discount on bonds	-	-	(38,122)	(38,122)
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 2,076,878	\$ 2,076,878
Net Change in Fund Balance	\$ -	\$ -	\$ 2,071,184	\$ 2,071,184
Fund Balance - January 1	260,277	260,277	260,277	-
Fund Balance - December 31	\$ 260,277	\$ 260,277	\$ 2,331,461	\$ 2,071,184

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

AGENCY FUNDS

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

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

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

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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

Statement 7

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<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	\$ 17,639	\$ 422,434	\$ 417,058	\$ 23,015
<u>Liabilities</u>				
Due to other governments	\$ 17,639	\$ 422,434	\$ 417,058	\$ 23,015
<u>VISION FOR FAMILY AND COMMUNITY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 155,047	\$ 227,807	\$ 206,574	\$ 176,280
<u>Liabilities</u>				
Due to other governments	\$ 155,047	\$ 227,807	\$ 206,574	\$ 176,280
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 172,182	\$ 8,663,230	\$ 8,753,460	\$ 81,952
<u>Liabilities</u>				
Due to other governments	\$ 172,182	\$ 8,663,230	\$ 8,753,460	\$ 81,952
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 344,868	\$ 9,313,471	\$ 9,377,092	\$ 281,247
<u>Liabilities</u>				
Due to other governments	\$ 344,868	\$ 9,313,471	\$ 9,377,092	\$ 281,247

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

Schedule 1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Shared Revenue

State

Highway users tax	\$ 2,806,193
County program aid	605,216
PERA rate reimbursement	19,906
Disparity reduction aid	5,082
Police aid	34,077
Enhanced 911	33,944
Market value credit	582,244
Market value credit - manufactured homes	1,583

Total Shared Revenue	\$ 4,088,245
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Reimbursement for Services

State

Minnesota Department of Human Services	\$ 958,090
Minnesota Department of Transportation	3,357

Total Reimbursements	\$ 961,447
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Payments

Local

City contribution	\$ 21,865
Payments in lieu of taxes	5,682

Total Payments	\$ 27,547
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Grants

State

Minnesota Department/Board of/Agency	
Public Safety	\$ 27,167
Soil and Water Resources	40,287
Health	65,836
Environmental Assistance	49,099
Natural Resources	20,537
Pollution Control	25,000
Human Services	622,632
Peace Officers	2,507
Corrections	37,103
Transportation	104,470

Total State	\$ 994,638
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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

Schedule 1
(Continued)

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Grants (Continued)

Federal

Department of	
Agriculture	\$ 71,535
Justice	31,002
Transportation	96,414
Health and Human Services	296,163
Homeland Security	28,542

Total Federal	\$ 523,656
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Total State and Federal Grants	\$ 1,518,294
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Total Intergovernmental Revenue	\$ 6,595,533
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**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

Schedule 2

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of Watonwan County.
- B. No matters involving internal control over financial reporting were reported in the "Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*."
- C. No instances of noncompliance material to the financial statements of Watonwan County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Watonwan County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Temporary Assistance for Needy Families	CFDA #93.558
Social Services Block Grant (Title XX)	CFDA #93.667
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Watonwan County was determined to be a low-risk auditee.

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

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Individual Ditch Fund Cash Balance Deficits (03-1)

We recommended that the County eliminate the individual ditch cash balance deficits by borrowing from eligible funds with surplus cash balances and by levying assessments.

Resolution

All of the ditch systems had positive cash balances at December 31, 2004.

OTHER REQUIRED REPORTS

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PATRICIA ANDERSON
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

Board of County Commissioners
Watonwan County

We have audited the financial statements of Watonwan County as of and for the year ended December 31, 2004, and have issued our report thereon dated July 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Watonwan County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

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

This report is intended solely for the information and use of the Board of County Commissioners and management and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: July 28, 2005



STATE OF MINNESOTA

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PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
Watonwan County

Compliance

We have audited the compliance of Watonwan County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2004. Watonwan County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Watonwan County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2004.

Internal Control Over Compliance

The management of Watonwan County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Watonwan County as of and for the year ended December 31, 2004, and have issued our report thereon dated July 28, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Watonwan County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: July 28, 2005

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

Schedule 3

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557	\$ 68,365
Passed Through Minnesota Department of Human Services Administrative Matching Grant for Food Stamp Program	10.561	2,870
Passed Through Minnesota Department of Agriculture WIC Farmers Market Nutrition Program	10.572	300
Total U.S. Department of Agriculture		\$ 71,535
U.S. Department of Justice		
Passed Through Minnesota Department of Public Safety Narcotics and Other Drugs Training	16.004	\$ 1,149
Crime Victim Assistance	16.575	17,564
Direct Public Safety Partnership Community Policing Grant	16.710	12,289
Total U.S. Department of Justice		\$ 31,002
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 34,007
Public Transportation for Non-Urbanized Areas	20.509	62,283
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	124
Total U.S. Department of Transportation		\$ 96,414
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Public Safety Developmental Disabilities Mobilization Grant	93.630	\$ 2,000
Passed Through Minnesota Department of Health Injury Prevention and Control Research Project	93.136	2,500
Immunization Grant	93.268	750
Center for Disease Control and Prevention	93.283	20,817
Temporary Assistance for Needy Families	93.558	16,290
Maternal and Child Health Services Block Grant	93.994	19,907

**WATONWAN COUNTY
ST. JAMES, MINNESOTA**

**Schedule 3
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services (Continued)		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	7,380
Temporary Assistance for Needy Families	93.558	61,751
Child Care Mandatory and Matching Funds	93.596	5,314
Child Welfare Services	93.645	4,352
Foster Care - Title IV-E	93.658	22,220
Social Services Block Grant - Title XX	93.667	100,791
Independent Living	93.674	21,506
Community Mental Health Services Block Grant	93.958	10,585
Total U.S. Department of Health and Human Services		\$ 296,163
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Domestic Preparedness Equipment Support	97.004	\$ 16,887
Emergency Management Performance Grant	97.042	9,567
State and Local Emergency Operations Planning Grant	97.051	2,088
Total U.S. Department of Homeland Security		\$ 28,542
Total Federal Awards		\$ 523,656

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Watonwan County. The County's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting.
3. During 2004, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.