

# STATE OF MINNESOTA

## Office of the State Auditor



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

---

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

**YEAR ENDED DECEMBER 31, 2005**

## **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.

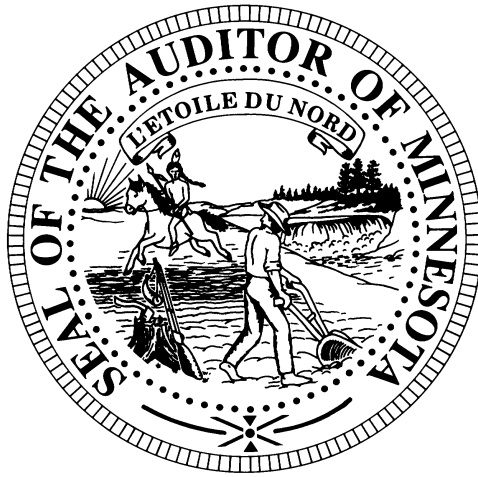
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the State Auditor's web site: [www.auditor.state.mn.us](http://www.auditor.state.mn.us).

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**Year Ended December 31, 2005**



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

This page was left blank intentionally.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**TABLE OF CONTENTS**

	<u>Reference</u>	<u>Page</u>
<b>Introductory Section</b>		
Organization		1
<b>Financial Section</b>		
Independent Auditor's Report		2
Management's Discussion and Analysis		4
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Assets	Exhibit 1	13
Statement of Activities	Exhibit 2	14
Fund Financial Statements		
Governmental Funds		
Balance Sheet	Exhibit 3	15
Reconciliation of the Fund Balances of Governmental Funds to the Statement of Net Assets	Exhibit 3A	19
Statement of Revenues, Expenditures, and Changes in Fund Balances	Exhibit 4	20
Reconciliation of the Changes in Fund Balances of Governmental Funds to the Statement of Activities	Exhibit 4A	22
Budgetary Comparison Schedules		
General Fund	Exhibit 5	23
Road and Bridge Fund	Exhibit 6	26
Human Services Fund	Exhibit 7	27
Statement of Fiduciary Net Assets - Agency Funds	Exhibit 8	28
Notes to the Financial Statements		29
Combining Fund Financial Statements and Schedule		
Other Governmental Funds		57
Nonmajor Governmental Funds		
Combining Balance Sheet	Statement 1	58
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	Statement 2	59
Budgetary Comparison Schedules		
County Library Fund	Statement 3	60
County Ditch Fund	Statement 4	61
Solid Waste Fund	Statement 5	62
Debt Service Fund	Statement 6	63

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**TABLE OF CONTENTS**

	<u>Reference</u>	<u>Page</u>
<b>Financial Section</b>		
Combining Fund Financial Statements and Schedule (Continued)		
Agency Funds		64
Combining Statement of Changes in Assets and Liabilities -		
All Agency Funds	Statement 7	65
Schedule of Intergovernmental Revenue - Governmental Funds	Schedule 1	66
<b>Management and Compliance Section</b>		
Schedule of Findings and Recommendations	Schedule 2	68
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing     Standards</i>		71



This page was left blank intentionally.



**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**ORGANIZATION  
2005**

<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 (State)	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

\*2005 Chair

This page was left blank intentionally.



This page was left blank intentionally.



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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

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

### INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Watonwan County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Watonwan County, Minnesota, as of and for the year ended December 31, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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. 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, 2005, and the respective changes in financial position thereof and the respective budgetary comparisons for the General Fund, Road and Bridge Special Revenue Fund, and Human Services Special Revenue Fund for the year then ended in 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 November 21, 2006, 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/Rebecca Otto

REBECCA OTTO  
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: November 21, 2006

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

This page was left blank intentionally.



**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2005  
(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, 2005. 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 2005 by \$41,857,781. Of this amount, \$2,653,687 (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 \$864,340 in 2005.
- At the close of 2005, Watonwan County's governmental funds reported combined ending fund balances of \$9,190,994, \$5,721,879 unreserved of which approximately \$2,023,280 is available for spending at the County's discretion and is noted as unreserved, undesignated fund balance.
- At the close of 2005, unreserved fund balance for the General Fund was \$2,974,391, or 58 percent, of total General Fund expenditures.
- Watonwan County's total bonds and capital notes payable increased by \$690,000, or 15 percent, during 2005. The key factor to this increase was the issuance of \$845,000 of bonds with offsetting payments of \$155,000.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

## **County-Wide Financial Statements**

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

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

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

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

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

## **Fund Financial Statements**

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

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

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

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 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 through 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. Watonswan County's assets exceeded liabilities by \$41,857,781 at the close of 2005. The largest portion of Watonswan County's net assets (83.5 percent) reflects its investment in capital assets (for example, land, buildings, and equipment), less any related debt used to acquire those assets that are still outstanding. However, it should be noted that these assets are not available for future spending.

### Governmental Net Assets

	2005	2004
Current and other assets	\$ 12,311,024	\$ 10,953,275
Capital assets	<u>37,382,307</u>	<u>36,555,027</u>
Total Assets	<u>\$ 49,693,331</u>	<u>\$ 47,508,302</u>
Long-term liabilities outstanding	\$ 6,901,187	\$ 5,823,822
Other liabilities	<u>934,363</u>	<u>691,039</u>
Total Liabilities	<u>\$ 7,835,550</u>	<u>\$ 6,514,861</u>
Net Assets		
Invested in capital assets - net of related debt	\$ 34,950,407	\$ 34,067,184
Restricted	4,253,687	3,086,677
Unrestricted	<u>2,653,687</u>	<u>3,839,580</u>
Total Net Assets	<u><u>\$ 41,857,781</u></u>	<u><u>\$ 40,993,441</u></u>

The unrestricted net asset amount of \$2,653,687 as of December 31, 2005, may be used to meet the County's ongoing obligations to citizens and creditors.

### Governmental Activities

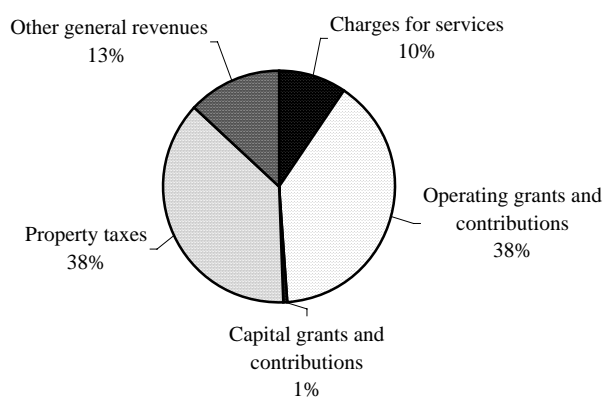
The following table summarizes the changes in net assets for 2005.

### Changes in Governmental Net Assets

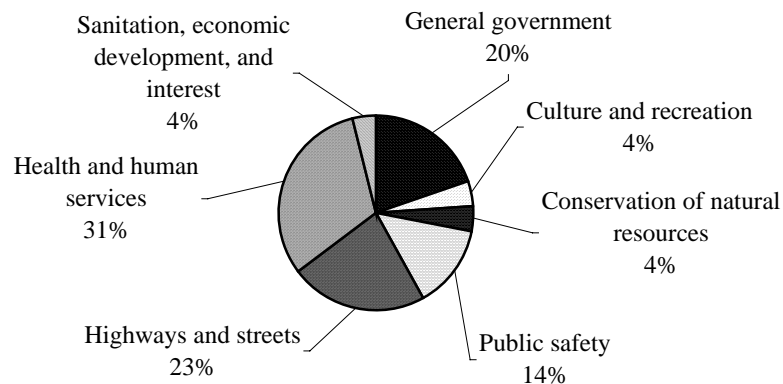
	2005	2004
Revenues		
Program revenues		
Charges for services	\$ 2,004,991	\$ 1,194,437
Operating grants and contributions	4,761,761	4,900,115
Capital grants and contributions	329,156	73,100
General revenues		
Property taxes	4,926,186	4,710,566
Other	<u>1,979,710</u>	<u>1,618,493</u>
Total Revenues	<u>\$ 14,001,804</u>	<u>\$ 12,496,711</u>

	2005	2004
Expenses		
General government	\$ 2,526,432	\$ 2,385,080
Public safety	1,632,703	1,665,523
Highways and streets	3,024,976	2,749,887
Sanitation	171,732	149,985
Human services	3,709,839	3,388,606
Health	406,683	381,661
Culture and recreation	564,683	507,225
Conservation of natural resources	717,619	490,801
Economic development	141,815	133,639
Interest	240,982	187,644
Total Expenses	\$ 13,137,464	\$ 12,040,051
Increase in Net Assets	\$ 864,340	\$ 456,660
Net Assets - January 1	40,993,441	40,536,781
Net Assets - December 31	\$ 41,857,781	\$ 40,993,441

### Sources of County Revenues



### Where County Funds Are Spent



## FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

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

Governmental funds. The focus of the County's governmental funds is to provide information on short-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, 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 \$9,190,994. The majority of this amount (\$5,721,879) constitutes unreserved fund balance. 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 \$2,974,391, while the total fund balance was \$3,985,511. 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 57.6 percent of total General Fund expenditures for 2005, while total

fund balance represents 77.2 percent of total General Fund expenditures. In 2005, the total fund balance in the General Fund increased by \$1,031,493, with unreserved fund balances increasing by \$234,320 and reserved fund balances increasing by \$797,173. The primary reasons for the increase were revenues from the sale of bonds and proceeds from ISTS loans from the Minnesota Pollution Control Agency.

The Road and Bridge Fund's fund balance decreased by \$445,445 in 2005. The main reason for the decrease was state-aid reimbursements for construction projects, which were not received in a timely enough manner to be recognized as revenue in the calendar year.

In 2005, the Human Services Fund's fund balance increased by \$19,611. A planned use of \$100,000 in fund balance did not materialize due to an unforeseen increase in revenues (which tickled us pink).

### **General Fund Budgetary Highlights**

There were two major changes between the original budget and the final budget. The Information Services Department expenditure budget was increased by \$41,017 to reflect the updates to the County's computer network. The revenues budget for other financing sources was increased by \$826,257 to account for the sale of bonds for the jail remodeling project.

One of the largest variances was in miscellaneous revenues, which was due to a dividend from workers' compensation and property/casualty insurance. The other large variance was the proceeds from ISTS loans from the Minnesota Pollution Control Agency, mainly for the septic improvements around Long Lake. On the expenditure side, the ISTS construction payment for the Long Lake project of \$273,447 accounted for the major variance.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

The County's investment in capital assets for its governmental activities as of December 31, 2005, amount to \$37,382,307 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The total increase in the County's investment in capital assets for the current fiscal year was 2.3 percent. The major capital asset event in 2005 was additional infrastructure additions (primarily bridges and County State-Aid Highway roads).

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

	<u>2005</u>	<u>2004</u>
Land	\$ 695,771	\$ 695,771
Construction in progress	387,631	196,533
Land improvements	39,321	41,777
Buildings and improvements	5,271,643	5,437,439
Machinery, furniture, and equipment	1,907,739	1,808,608
Infrastructure	<u>29,080,202</u>	<u>28,374,899</u>
Total	<u>\$ 37,382,307</u>	<u>\$ 36,555,027</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 \$5,240,606, which is backed by the full faith and credit of the government. Watonwan County's bonds are not rated.

**Governmental Outstanding Debt**

	<u>2005</u>	<u>2004</u>
General obligation bonds and capital notes	<u>\$ 5,240,606</u>	<u>\$ 4,557,647</u>

The County's debt increased by \$682,959 during the fiscal year. The main reason for the increase was the issuance of bonds for the jail remodeling project.

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 2005, 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 4.5 percent as of the end of 2005. This is slightly higher than the statewide rate of 4.0 percent.
- Both housing and farm land values have continued to increase in 2005.



At the end of 2005, Watonwan County set its 2006 revenue and expenditure budgets. In doing so, it has appropriated \$661,075 from available fund balance to offset the difference between 2006 budgeted revenues and expenditures of \$14,601,016 and \$15,262,091, respectively.

During 2005, Watonwan County's net assets increased by \$864,340. A significant portion of this increase was from the sale of \$845,000 of General Obligation Bonds in 2005 to fund the remodeling and expansion of the County's Detention Facility. The current capacity of the Watonwan County Detention Facility is 15. The Detention Facility consists of an eight-bed Huber cell, a two-bed Huber cell, five 90-day holding beds in three cells, and one isolation cell. The expansion will add five 90-day holding beds. These additional beds should alleviate some of the expenses incurred in housing prisoners outside of Watonwan County. In 2002, 2003, and 2004, the County spent \$36,610, \$53,320, and \$82,030, respectively, on out-of-county prisoner board. The addition of the five 90-day holding beds should directly reduce the costs of out-of-county prisoner board. Other benefits include less transportation costs. In addition to the detention cells being added to the Detention Facility, the HVAC (heating, ventilation, and air conditioning) system in this area is over 25 years old; technological advances will improve the performance of the system and reduce the maintenance and operational cost of the system.

## **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.

This page was left blank intentionally.

## **BASIC FINANCIAL STATEMENTS**

This page was left blank intentionally.

## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

This page was left blank intentionally.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2005**

**Assets**

Cash and pooled investments	\$ 7,278,719
Cash with fiscal agent	2,035,495
Taxes receivable	
Prior	144,713
Special assessments receivable	
Prior	18,883
Noncurrent	828,969
Accounts receivable	281,452
Accrued interest receivable	20,146
Due from other governments	1,508,062
Inventories	157,919
Deferred debt issue costs	36,666
Capital assets	
Non-depreciable	1,083,402
Depreciable - net of accumulated depreciation	36,298,905
	<hr/>
<b>Total Assets</b>	<b>\$ 49,693,331</b>

**Liabilities**

Accounts payable	\$ 206,849
Salaries payable	130,685
Contracts payable	39,186
Due to other governments	93,226
Accrued interest payable	105,063
Unearned revenue	59,354
Advance from other governments	300,000
Long-term liabilities	
Due within one year	633,886
Due in more than one year	6,267,301
	<hr/>
<b>Total Liabilities</b>	<b>\$ 7,835,550</b>

**Net Assets**

Invested in capital assets - net of related debt	\$ 34,950,407
Restricted for	
General government	812,071
Public safety	28,753
Highways and streets	884,480
Culture and recreation	159,835
Conservation of natural resources	23,374
Debt service	2,340,804
Economic development	4,370
Unrestricted	2,653,687
	<hr/>
<b>Total Net Assets</b>	<b>\$ 41,857,781</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**EXHIBIT 2**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2005**

		Program Revenues			Net (Expense) Revenue and Change in Net Assets
		Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	
	Expenses				
<b>Functions/Programs</b>					
<b>Governmental activities</b>					
General government	\$ 2,526,432	\$ 396,279	\$ 167,439	\$ 597	\$ (1,962,117)
Public safety	1,632,703	173,971	197,857	37,667	(1,223,208)
Highways and streets	3,024,976	257,835	2,355,134	290,892	(121,115)
Sanitation	171,732	136,551	49,079	-	13,898
Human services	3,709,839	459,649	1,695,951	-	(1,554,239)
Health	406,683	32,192	203,281	-	(171,210)
Culture and recreation	564,683	20,381	2,455	-	(541,847)
Conservation of natural resources	717,619	446,797	90,565	-	(180,257)
Economic development	141,815	81,336	-	-	(60,479)
Interest	240,982	-	-	-	(240,982)
<b>Total governmental activities</b>	<b>\$ 13,137,464</b>	<b>\$ 2,004,991</b>	<b>\$ 4,761,761</b>	<b>\$ 329,156</b>	<b>\$ (6,041,556)</b>
<b>General Revenues</b>					
Property taxes					\$ 4,926,186
Mortgage registry and deed tax					6,414
Grants and contributions not restricted to specific programs					1,638,355
Payments in lieu of taxes					7,767
Investment income					173,765
Miscellaneous					153,409
<b>Total general revenues</b>					<b>\$ 6,905,896</b>
<b>Change in net assets</b>					<b>\$ 864,340</b>
<b>Net Assets - January 1</b>					<b>40,993,441</b>
<b>Net Assets - December 31</b>					<b>\$ 41,857,781</b>



## **FUND FINANCIAL STATEMENTS**

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2005**

	<u>General</u>	<u>Road and Bridge</u>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 3,978,142	\$ 694,317
Cash with fiscal agent	-	-
Taxes receivable		
Prior	72,930	15,035
Special assessments receivable		
Prior	7,885	-
Noncurrent	676,803	22,171
Accounts receivable	51,083	709
Accrued interest receivable	18,695	-
Due from other funds	13,397	17,170
Due from other governments	22,952	880,847
Inventories	-	157,919
Advances to other funds	137,716	-
	<hr/>	<hr/>
<b>Total Assets</b>	<b><u>\$ 4,979,603</u></b>	<b><u>\$ 1,788,168</u></b>

**EXHIBIT 3**

<b>Human Services</b>	<b>Debt Service</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<hr/>	<hr/>	<hr/>	<hr/>
\$ 1,363,450	\$ 295,720	\$ 947,090	\$ 7,278,719
-	2,035,495	-	2,035,495
37,871	7,672	11,205	144,713
-	-	10,998	18,883
-	-	129,995	828,969
228,927	-	733	281,452
-	-	1,451	20,146
-	-	63	30,630
348,194	226,000	30,069	1,508,062
-	-	-	157,919
-	-	-	137,716
<hr/>	<hr/>	<hr/>	<hr/>
<b>\$ 1,978,442</b>	<b>\$ 2,564,887</b>	<b>\$ 1,131,604</b>	<b>\$ 12,442,704</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2005**

	<u>General</u>	<u>Road and Bridge</u>
<b><u>Liabilities and Fund Balances</u></b>		
<b>Liabilities</b>		
Accounts payable	\$ 59,345	\$ 39,321
Salaries payable	54,440	21,865
Contracts payable	-	39,186
Due to other funds	15,881	-
Due to other governments	51,633	1,030
Matured interest payable	-	-
Deferred revenue - unavailable	754,695	891,052
Deferred revenue - unearned	58,098	274
Advance from other funds	-	-
Advance from other governments	-	300,000
<b>Total Liabilities</b>	<b>\$ 994,092</b>	<b>\$ 1,292,728</b>
<b>Fund Balances</b>		
Reserved for		
Debt service	\$ -	\$ -
Inventories	-	157,919
Law library	46,097	-
Recorder's equipment	1,061	-
E-911	21,646	-
Boat and water safety	436	-
Sheriff's contingency	6,671	-
Highway projects	-	104,746
Future projects	764,913	-
Donations	-	-
ISTS loans	150,197	-
Water plan	15,729	-
HRA special benefits levy	4,370	-
Unreserved		
Designated for cash flows	1,692,501	38,388
Designated for compensated absences	333,870	194,387
Designated for debt service	-	-
Undesignated	948,020	-
Unreserved, reported in nonmajor special revenue funds	-	-
<b>Total Fund Balances</b>	<b>\$ 3,985,511</b>	<b>\$ 495,440</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 4,979,603</b>	<b>\$ 1,788,168</b>

**EXHIBIT 3**  
**(Continued)**

<b>Human Services</b>	<b>Debt Service</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 93,566	\$ -	\$ 14,617	\$ 206,849
47,684	-	6,696	130,685
-	-	-	39,186
13,397	-	1,352	30,630
24,473	-	16,090	93,226
-	763	-	763
237,526	223,184	146,844	2,253,301
651	136	195	59,354
-	-	137,716	137,716
-	-	-	300,000
<b>\$ 417,297</b>	<b>\$ 224,083</b>	<b>\$ 323,510</b>	<b>\$ 3,251,710</b>
\$ -	\$ 2,035,495	\$ -	\$ 2,035,495
-	-	-	157,919
-	-	-	46,097
-	-	-	1,061
-	-	-	21,646
-	-	-	436
-	-	-	6,671
-	-	-	104,746
-	-	-	764,913
-	-	159,835	159,835
-	-	-	150,197
-	-	-	15,729
-	-	-	4,370
877,500	-	-	2,608,389
256,644	-	-	784,901
-	305,309	-	305,309
427,001	-	-	1,375,021
-	-	648,259	648,259
<b>\$ 1,561,145</b>	<b>\$ 2,340,804</b>	<b>\$ 808,094</b>	<b>\$ 9,190,994</b>
<b>\$ 1,978,442</b>	<b>\$ 2,564,887</b>	<b>\$ 1,131,604</b>	<b>\$ 12,442,704</b>

This page was left blank intentionally.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

***EXHIBIT 3A***

**RECONCILIATION OF THE FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
DECEMBER 31, 2005**

<b>Fund balances - total governmental funds (Exhibit 3)</b>	<b>\$</b>	<b>9,190,994</b>
---	-----------	------------------

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.		37,382,307
--	--	------------

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		2,253,301
---	--	-----------

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.

General obligation bonds	\$	(5,145,000)	
Capital notes		(140,000)	
Accrued interest payable		(105,063)	
Matured interest payable		763	
Deferred debt issue costs		36,666	
Discount on bonds		44,394	
Loans payable		(824,912)	
Compensated absences		(835,669)	
		<hr/>	<hr/>
			(6,968,821)

<b>Net assets of governmental activities (Exhibit 1)</b>	<b>\$</b>	<b><u>41,857,781</u></b>
--	-----------	--------------------------

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>General</u>	<u>Road and Bridge</u>
<b>Revenues</b>		
Taxes	\$ 2,505,867	\$ 548,457
Special assessments	78,456	8,653
Licenses and permits	21,934	-
Intergovernmental	1,349,613	2,490,794
Charges for services	614,570	231,722
Fines and forfeits	3,008	-
Gifts and contributions	-	-
Investment earnings	121,786	-
Miscellaneous	252,022	257,662
<b>Total Revenues</b>	<b>\$ 4,947,256</b>	<b>\$ 3,537,288</b>
<b>Expenditures</b>		
<b>Current</b>		
General government	\$ 2,411,872	\$ -
Public safety	1,696,204	-
Highways and streets	-	3,992,943
Sanitation	-	-
Human services	-	-
Health	-	-
Culture and recreation	60,559	-
Conservation of natural resources	673,387	-
Economic development	140,861	-
<b>Capital outlay</b>	107,084	-
<b>Debt service</b>		
Principal	44,801	-
Interest	9,054	-
Bond issue costs	17,578	-
Administrative charges	-	-
<b>Total Expenditures</b>	<b>\$ 5,161,400</b>	<b>\$ 3,992,943</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (214,144)</b>	<b>\$ (455,655)</b>
<b>Other Financing Sources (Uses)</b>		
Transfers in	\$ 95,391	\$ 8,825
Transfers out	(14,139)	-
Proceeds from loans	344,823	-
Proceeds from sale of bonds	829,067	-
Discount on bonds/notes issued	(9,505)	-
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 1,245,637</b>	<b>\$ 8,825</b>
<b>Net Change in Fund Balances</b>	<b>\$ 1,031,493</b>	<b>\$ (446,830)</b>
<b>Fund Balances - January 1</b>	<b>2,954,018</b>	<b>940,885</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>1,385</b>
<b>Fund Balances - December 31</b>	<b>\$ 3,985,511</b>	<b>\$ 495,440</b>



**EXHIBIT 4**

<b>Human Services</b>	<b>Debt Service</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 1,240,722	\$ 250,920	\$ 373,020	\$ 4,918,986
-	-	165,690	252,799
-	-	-	21,934
2,420,846	54,003	177,474	6,492,730
64,121	-	4,822	915,235
-	-	8,317	11,325
-	-	2,455	2,455
-	51,979	4,423	178,188
457,508	-	4,052	971,244
<b>\$ 4,183,197</b>	<b>\$ 356,902</b>	<b>\$ 740,253</b>	<b>\$ 13,764,896</b>
\$ -	\$ -	\$ -	\$ 2,411,872
-	-	-	1,696,204
-	-	-	3,992,943
-	-	176,511	176,511
3,664,528	-	-	3,664,528
403,667	-	-	403,667
-	-	533,197	593,756
-	-	104,676	778,063
-	-	-	140,861
-	-	-	107,084
-	155,000	-	199,801
-	207,589	-	216,643
-	-	-	17,578
-	903	-	903
<b>\$ 4,068,195</b>	<b>\$ 363,492</b>	<b>\$ 814,384</b>	<b>\$ 14,400,414</b>
<b>\$ 115,002</b>	<b>\$ (6,590)</b>	<b>\$ (74,131)</b>	<b>\$ (635,518)</b>
\$ -	\$ -	\$ 5,314	\$ 109,530
(95,391)	-	-	(109,530)
-	-	-	344,823
-	15,933	-	845,000
-	-	-	(9,505)
<b>\$ (95,391)</b>	<b>\$ 15,933</b>	<b>\$ 5,314</b>	<b>\$ 1,180,318</b>
<b>\$ 19,611</b>	<b>\$ 9,343</b>	<b>\$ (68,817)</b>	<b>\$ 544,800</b>
<b>1,541,534</b>	<b>2,331,461</b>	<b>876,911</b>	<b>8,644,809</b>
<b>-</b>	<b>-</b>	<b>-</b>	<b>1,385</b>
<b>\$ 1,561,145</b>	<b>\$ 2,340,804</b>	<b>\$ 808,094</b>	<b>\$ 9,190,994</b>

**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, 2005**

<b>Net change in fund balances - total governmental funds (Exhibit 4)</b>	<b>\$</b>	<b>544,800</b>
---	-----------	----------------

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.		571,634
--	--	---------

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	\$	2,176,312	
Depreciation expense		(1,349,032)	827,280

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal consumes current financial resources. Neither transaction has any effect on net assets. Also, governmental funds report the net effect of issuance costs and discounts when debt is issued; these amounts are deferred and amortized over the life of the debt in the statement of activities.

Proceeds of new debt			
Capital improvement bonds issued	\$	(845,000)	
Discount on debt		9,505	
Deferred debt issue costs		17,578	
Loans issued		(344,823)	(1,162,740)

Repayment of debt principal		199,801
-----------------------------	--	---------

Amortization of discount on debt and issuance costs		(4,013)
---	--	---------

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in inventories	\$	1,385	
Change in accrued interest payable		(19,423)	
Change in compensated absences		(94,384)	(112,422)

<b>Change in net assets of governmental activities (Exhibit 2)</b>	<b>\$</b>	<b><u>864,340</u></b>
--	-----------	-----------------------

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**EXHIBIT 5**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Revenues</b>				
Taxes	\$ 2,781,454	\$ 2,476,565	\$ 2,505,867	\$ 29,302
Special assessments	-	-	78,456	78,456
Licenses and permits	10,590	10,590	21,934	11,344
Intergovernmental	1,036,546	1,341,435	1,349,613	8,178
Charges for services	582,735	582,735	614,570	31,835
Fines and forfeits	-	-	3,008	3,008
Investment earnings	112,000	112,000	121,786	9,786
Miscellaneous	91,608	91,608	252,022	160,414
<b>Total Revenues</b>	<b>\$ 4,614,933</b>	<b>\$ 4,614,933</b>	<b>\$ 4,947,256</b>	<b>\$ 332,323</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 175,971	\$ 175,971	\$ 180,762	\$ (4,791)
Courts	20,000	20,000	14,487	5,513
Law library	12,000	12,000	14,937	(2,937)
Victim witness coordinator	35,181	35,181	44,154	(8,973)
County auditor	200,460	200,460	196,034	4,426
License bureau	74,504	74,504	78,075	(3,571)
County treasurer	120,199	120,199	113,349	6,850
County assessor	206,222	206,222	210,743	(4,521)
Elections	100	100	242	(142)
Central services	80,600	80,600	74,301	6,299
Personnel	66,337	66,337	74,375	(8,038)
Information services	73,983	115,000	109,036	5,964
Attorney	221,662	221,662	211,462	10,200
Recorder	128,704	128,704	145,962	(17,258)
Surveyor	5,000	5,000	-	5,000
Buildings and plant	227,345	227,345	245,504	(18,159)
Transit	170,952	170,952	223,686	(52,734)
Veterans service officer	99,991	99,991	80,518	19,473
Appropriations - general government	-	-	1,525	(1,525)
Other general government	347,169	347,169	392,720	(45,551)
<b>Total general government</b>	<b>\$ 2,266,380</b>	<b>\$ 2,307,397</b>	<b>\$ 2,411,872</b>	<b>\$ (104,475)</b>
<b>Public safety</b>				
Sheriff	\$ 1,025,192	\$ 1,025,192	\$ 1,037,299	\$ (12,107)
Emergency services	43,435	43,435	71,584	(28,149)
Coroner	7,800	7,800	9,772	(1,972)
County jail	433,349	433,349	331,614	101,735
Probation and parole	221,465	221,465	245,935	(24,470)
<b>Total public safety</b>	<b>\$ 1,731,241</b>	<b>\$ 1,731,241</b>	<b>\$ 1,696,204</b>	<b>\$ 35,037</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**EXHIBIT 5  
(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Culture and recreation</b>				
Historical society	\$ 30,000	\$ 30,000	\$ 30,000	\$ -
Parks	21,500	21,500	30,559	(9,059)
<b>Total culture and recreation</b>	<b>\$ 51,500</b>	<b>\$ 51,500</b>	<b>\$ 60,559</b>	<b>\$ (9,059)</b>
<b>Conservation of natural resources</b>				
Cooperative extension	\$ 71,317	\$ 71,317	\$ 75,402	\$ (4,085)
Soil and water conservation	46,500	46,500	46,750	(250)
Agricultural society/County fair	40,500	40,500	41,513	(1,013)
Water planning	85,000	85,000	37,621	47,379
CWP project	152,000	152,000	51,096	100,904
Environmental services	81,665	81,665	83,731	(2,066)
Septic loan program	-	-	337,274	(337,274)
<b>Total conservation of natural resources</b>	<b>\$ 476,982</b>	<b>\$ 476,982</b>	<b>\$ 673,387</b>	<b>\$ (196,405)</b>
<b>Economic development</b>				
Job training and employment	\$ 86,835	\$ 86,835	\$ 80,990	\$ 5,845
Appropriations - economic development	-	-	7,412	(7,412)
Other	51,500	51,500	52,459	(959)
<b>Total economic development</b>	<b>\$ 138,335</b>	<b>\$ 138,335</b>	<b>\$ 140,861</b>	<b>\$ (2,526)</b>
<b>Capital outlay</b>				
General government	\$ 106,445	\$ 121,445	\$ 107,084	\$ 14,361
<b>Debt service</b>				
Principal	\$ -	\$ -	\$ 44,801	\$ (44,801)
Interest	\$ -	\$ -	\$ 9,054	\$ (9,054)
Bond issuance costs	\$ -	\$ -	\$ 17,578	\$ (17,578)
<b>Total Expenditures</b>	<b>\$ 4,770,883</b>	<b>\$ 4,826,900</b>	<b>\$ 5,161,400</b>	<b>\$ (334,500)</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ (155,950)</b>	<b>\$ (211,967)</b>	<b>\$ (214,144)</b>	<b>\$ (2,177)</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**EXHIBIT 5  
(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 95,000	\$ 95,000	\$ 95,391	\$ 391
Transfers out	-	-	(14,139)	(14,139)
Proceeds from loans	-	-	344,823	344,823
Proceeds from sale of bonds	-	836,257	829,067	(7,190)
Discount on bonds/notes issued	-	-	(9,505)	(9,505)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 95,000</b>	<b>\$ 931,257</b>	<b>\$ 1,245,637</b>	<b>\$ 314,380</b>
<b>Net Change in Fund Balance</b>	<b>\$ (60,950)</b>	<b>\$ 719,290</b>	<b>\$ 1,031,493</b>	<b>\$ 312,203</b>
<b>Fund Balance - January 1</b>	<b>2,954,018</b>	<b>2,954,018</b>	<b>2,954,018</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,893,068</b>	<b>\$ 3,673,308</b>	<b>\$ 3,985,511</b>	<b>\$ 312,203</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**EXHIBIT 6**

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Revenues</b>				
Taxes	\$ 621,047	\$ 550,824	\$ 548,457	\$ (2,367)
Special assessments	-	-	8,653	8,653
Intergovernmental	2,809,043	3,023,061	2,490,794	(532,267)
Charges for services	140,000	140,000	231,722	91,722
Miscellaneous	155,072	155,072	257,662	102,590
<b>Total Revenues</b>	<b>\$ 3,725,162</b>	<b>\$ 3,868,957</b>	<b>\$ 3,537,288</b>	<b>\$ (331,669)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 353,824	\$ 353,824	\$ 373,855	\$ (20,031)
Maintenance	926,980	1,070,775	885,921	184,854
Construction	1,390,469	1,390,469	1,387,975	2,494
Equipment maintenance and shop	975,498	975,498	1,108,754	(133,256)
Other	226,178	226,178	236,438	(10,260)
<b>Total Expenditures</b>	<b>\$ 3,872,949</b>	<b>\$ 4,016,744</b>	<b>\$ 3,992,943</b>	<b>\$ 23,801</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ (147,787)</b>	<b>\$ (147,787)</b>	<b>\$ (455,655)</b>	<b>\$ (307,868)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	12,000	12,000	8,825	(3,175)
<b>Net Change in Fund Balance</b>	<b>\$ (135,787)</b>	<b>\$ (135,787)</b>	<b>\$ (446,830)</b>	<b>\$ (311,043)</b>
<b>Fund Balance - January 1</b>	<b>940,885</b>	<b>940,885</b>	<b>940,885</b>	<b>-</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>-</b>	<b>1,385</b>	<b>1,385</b>
<b>Fund Balance - December 31</b>	<b>\$ 805,098</b>	<b>\$ 805,098</b>	<b>\$ 495,440</b>	<b>\$ (309,658)</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**EXHIBIT 7**

**BUDGETARY COMPARISON SCHEDULE  
HUMAN SERVICES FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Revenues</b>				
Taxes	\$ 1,404,481	\$ 1,244,287	\$ 1,240,722	\$ (3,565)
Intergovernmental	2,241,192	2,401,386	2,420,846	19,460
Charges for services	33,350	33,350	64,121	30,771
Miscellaneous	246,900	246,900	457,508	210,608
<b>Total Revenues</b>	<b>\$ 3,925,923</b>	<b>\$ 3,925,923</b>	<b>\$ 4,183,197</b>	<b>\$ 257,274</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 873,508	\$ 873,508	\$ 889,349	\$ (15,841)
Social services	2,691,213	2,691,213	2,775,179	(83,966)
<b>Total human services</b>	<b>\$ 3,564,721</b>	<b>\$ 3,564,721</b>	<b>\$ 3,664,528</b>	<b>\$ (99,807)</b>
<b>Health</b>				
Community health services	461,202	461,202	403,667	57,535
<b>Total Expenditures</b>	<b>\$ 4,025,923</b>	<b>\$ 4,025,923</b>	<b>\$ 4,068,195</b>	<b>\$ (42,272)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (100,000)</b>	<b>\$ (100,000)</b>	<b>\$ 115,002</b>	<b>\$ 215,002</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	-	-	(95,391)	(95,391)
<b>Net Change in Fund Balance</b>	<b>\$ (100,000)</b>	<b>\$ (100,000)</b>	<b>\$ 19,611</b>	<b>\$ 119,611</b>
<b>Fund Balance - January 1</b>	<b>1,541,534</b>	<b>1,541,534</b>	<b>1,541,534</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,441,534</b>	<b>\$ 1,441,534</b>	<b>\$ 1,561,145</b>	<b>\$ 119,611</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

***EXHIBIT 8***

**STATEMENT OF FIDUCIARY NET ASSETS  
AGENCY FUNDS  
DECEMBER 31, 2005**

<b><u>Assets</u></b>	
Cash and pooled investments	<u><u>\$ 210,142</u></u>
<b><u>Liabilities</u></b>	
Due to other governments	<u><u>\$ 210,142</u></u>



**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005**

---

**1. Summary of Significant Accounting Policies**

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2005. 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 described in Note 5.B. The County also participates in jointly-governed organizations described in Note 5.C.

**B. Basic Financial Statements**

**1. County-Wide Statements**

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

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. County-Wide Statements (Continued)

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

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

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category--governmental and fiduciary--are presented. The emphasis of governmental fund financial statements is on major individual governmental funds, with each displayed as a separate column in the fund financial statements. 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 as available if collected within 60 days after the end of the current period. Property and other taxes, shared revenues, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2005, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Pooled investment earnings for 2005 were \$121,786.

Watonwan County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

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

Investments of the County are reported at fair value.

2. Receivables and Payables

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

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

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 May 15 and the second half payment due October 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

3. Inventories

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

Inventories, as reported in the fund financial statements, are 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.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Capital Assets (Continued)

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

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

5. Compensated Absences

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

6. Deferred Revenue

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

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

1. Summary of Significant Accounting Policies

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

7. Long-Term Obligations

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

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

8. 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.



**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all 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 fund level. The Board made a budget adjustment for the bond sale proceeds as well as some immaterial adjustments.

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, 2005.

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General	\$ 5,161,400	\$ 4,826,900	\$ 334,500
Human Services	4,068,195	4,025,923	42,272
Debt Service	363,492	305,327	58,165
County Library	533,197	509,756	23,441
County Ditch	104,676	21,533	83,143

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

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Governmental funds	
Cash and pooled investments	\$ 9,314,214
Fiduciary funds	
Cash and pooled investments	
Agency funds	<u>210,142</u>
Total Cash and Investments	<u>\$ 9,524,356</u>

a. Deposits

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

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

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. It is County policy to minimize custodial credit risk of deposits by making deposits with financial institutions as defined by Minn. Stat. § 118A.01 and by obtaining necessary documentation of perfected security interest in pledged collateral from the financial institutions. As of December 31, 2005, \$19,141 of the County's bank balance of \$7,353,665 was exposed to custodial credit risk because deposits exceeded insurance and pledged collateral.

b. Investments

Interest Rate Risk

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

Credit Risk

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

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. It is County policy to mitigate custodial credit risk by investing only in securities allowed by Minnesota statute and by obtaining necessary documentation of perfected security interest in pledged collateral from the financial institutions with which business is conducted.

At December 31, 2005, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's policy to minimize concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimal. As of December 31, 2005, all of the County's investment, with a carrying value of \$532,000, was invested in the MAGIC Fund.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2005, for the County are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Taxes - prior	\$ 144,713	\$ -
Special assessments - prior	18,883	-
Special assessments - noncurrent	828,969	637,850
Accounts	281,452	-
Accrued interest	20,146	-
Due from other governments	1,508,062	217,000
Total	<u>\$ 2,802,225</u>	<u>\$ 854,850</u>

3. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 695,771	\$ -	\$ -	\$ 695,771
Construction in progress	196,533	370,889	179,791	387,631
Total capital assets not depreciated	<u>\$ 892,304</u>	<u>\$ 370,889</u>	<u>\$ 179,791</u>	<u>\$ 1,083,402</u>
Capital assets depreciated				
Buildings	\$ 7,011,387	\$ -	\$ -	\$ 7,011,387
Land improvements	49,128	-	-	49,128
Machinery, furniture, and equipment	4,745,374	524,646	301,318	4,968,702
Infrastructure	37,284,427	1,460,568	-	38,744,995
Total capital assets depreciated	<u>\$ 49,090,316</u>	<u>\$ 1,985,214</u>	<u>\$ 301,318</u>	<u>\$ 50,774,212</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	\$ 1,573,948	\$ 165,796	\$ -	\$ 1,739,744
Land improvements	7,351	2,456	-	9,807
Machinery, furniture, and equipment	2,936,766	425,515	301,318	3,060,963
Infrastructure	8,909,528	755,265	-	9,664,793
Total accumulated depreciation	\$ 13,427,593	\$ 1,349,032	\$ 301,318	\$ 14,475,307
Total capital assets depreciated, net	\$ 35,662,723	\$ 636,182	\$ -	\$ 36,298,905
Capital Assets, Net	\$ 36,555,027	\$ 1,007,071	\$ 179,791	\$ 37,382,307

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

General government	\$ 234,116
Public safety	69,593
Highways and streets, including depreciation of infrastructure assets	982,686
Sanitation	846
Human services	61,791
Total Depreciation Expense	\$ 1,349,032

**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, 2005, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Human Services	\$ 13,397
County Ditch	General	\$ 63
Road and Bridge	General	\$ 15,818
	County Ditch	1,335
	Solid Waste	17
Total Due to Road and Bridge Fund		\$ 17,170
Total Due To/From Other Funds		\$ 30,630

2. Advances To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	County Ditch	\$ 137,716

3. Interfund Transfers

Transfers Out	Transfers In	Amount	Purpose
General	Road and Bridge	\$ 8,825	Allocated interest
	County Library	1,691	Allocated interest
	County Ditch	3,623	Allocated interest
Total Transfers Out of General Fund		\$ 14,139	
Human Services	General	95,391	2005 rent
Total Transfers In/Out		\$ 109,530	

**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 Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2005</u>
G.O. Capital Improvement Bonds, Series 2000A	2007	\$ 90,000 - \$2,095,000	5.65	\$ 2,500,000	\$ 2,185,000
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 Improvement Bonds, Series 2005A	2026	\$30,000 - \$60,000	3.50 - 4.40	845,000	845,000
G.O. Capital Notes, Series 2003	2007	\$70,000	3.00	<u>280,000</u>	<u>140,000</u>
Total general obligation bonds				<u>\$ 5,740,000</u>	\$ 5,285,000
Less: unamortized discount					<u>(44,394)</u>
Total General Obligation Bonds, Net					<u>\$ 5,240,606</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.



**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

1. Long-Term Debt

Loans Payable (Continued)

<u>Types of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amount</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2005</u>
Watonwan Watershed Clean Water Partnership Project, SFR0047	2014	\$26,928	2.00	\$ 485,926	\$ 419,057
Watonwan Watershed Continuation Clean Water Partnership Project, SFR0108	2017	\$28,194	2.00	405,855	405,855
Total Loans				<u>\$ 891,781</u>	<u>\$ 824,912</u>

2. Debt Service Requirements

Debt service requirements at December 31, 2005, were as follows:

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>		<u>Capital Notes</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 90,000	\$ 237,615	\$ 70,000	\$ 4,200
2007	2,125,000	176,656	70,000	2,100
2008	150,000	113,205	-	-
2009	155,000	108,630	-	-
2010	165,000	103,470	-	-
2011 - 2015	875,000	425,890	-	-
2016 - 2020	1,070,000	233,024	-	-
2021 - 2025	455,000	47,052	-	-
2026	60,000	1,320	-	-
Total	<u>\$ 5,145,000</u>	<u>\$ 1,446,862</u>	<u>\$ 140,000</u>	<u>\$ 6,300</u>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

3. Detailed Notes on All Funds

C. Liabilities

2. Debt Service Requirements (Continued)

Year Ending December 31	Loans Payable	
	Principal	Interest
2006	\$ 45,702	\$ 8,154
2007	46,620	7,235
2008	47,558	6,298
2009	48,513	5,342
2010	49,488	4,367
2011 - 2014	<u>181,176</u>	<u>7,319</u>
Total	<u>\$ 419,057</u>	<u>\$ 38,715</u>

The debt service requirements for the loan from the Minnesota Pollution Control Agency in the amount of \$405,855 are not known as of December 31, 2005.

Crossover Refunding of Bonds

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

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

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.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

3. Detailed Notes on All Funds

C. Liabilities

2. Debt Service Requirements

Crossover Refunding of Bonds (Continued)

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.

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
G.O. Capital Improvement Bonds, Series 2000A	\$ 2,270,000	\$ -	\$ 85,000	\$ 2,185,000	\$ 90,000
G.O. Capital Improvement Bonds, Series 2005A	-	845,000	-	845,000	-
G.O. Capital Improvement Refunding Bonds, Series 2004A	2,115,000	-	-	2,115,000	-
G.O. Capital Notes, Series 2003	210,000	-	70,000	140,000	70,000
Less: unamortized discount on bonds	<u>(37,353)</u>	<u>(9,505)</u>	<u>(2,464)</u>	<u>(44,394)</u>	<u>-</u>
Total bonds payable	\$ 4,557,647	\$ 835,495	\$ 152,536	\$ 5,240,606	\$ 160,000
Loans payable	524,890	344,823	44,801	824,912	45,702
Compensated absences	<u>741,285</u>	<u>94,384</u>	<u>-</u>	<u>835,669</u>	<u>428,184</u>
Long-Term Liabilities	<u>\$ 5,823,822</u>	<u>\$ 1,274,702</u>	<u>\$ 197,337</u>	<u>\$ 6,901,187</u>	<u>\$ 633,886</u>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

3. Detailed Notes on All Funds (Continued)

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 MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$760,000 per claim in 2005 and \$390,000 per claim in 2006. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

D. Other Postemployment Benefits - Retirees

Watonwan County provides postemployment health care benefits for retirees and elected officials.

- The retirement policy was for employees that exercised a retirement option between July 1, 2003, and June 30, 2004. Individuals are eligible for benefits in the amount equal to the single health insurance premium for two years.

As of December 31, 2005, there were three employees receiving the premium-coverage benefit. The County finances the plans on a pay-as-you-go basis. For the year ended December 31, 2005, the County recognized \$30,621 of expenditures.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

3. Detailed Notes on All Funds

D. Other Postemployment Benefits - Retirees (Continued)

- Within 60 days of the effective date of an elected County official's retirement or termination, the County shall contribute an amount equal to the annual premium for single health insurance coverage in effect at the time of termination or retirement for every four complete years of service, to a maximum of four years' premium.

As of December 31, 2005, the County recorded a liability of \$63,540 for the elected official's termination benefits as a part of the compensated absences liability.

4. Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Watonwan County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). 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. 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 Public Employees Retirement Fund 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 internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

4. 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 in 2005. Contribution rates in the Coordinated Plan increased in 2006 to 5.50 percent. Public Employees Police and Fire Fund members are required to contribute 6.20 percent of their annual covered salary in 2005. That rate increased to 7.00 percent in 2006. 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 in 2005 and 2006:

	<u>2005</u>	<u>2006</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	5.53	6.00
Public Employees Police and Fire Fund	9.30	10.50
Public Employees Correctional Fund	8.75	8.75

The County's contributions for the years ending December 31, 2005, 2004, and 2003, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund, were:

	<u>Public Employees Retirement Fund</u>	<u>Public Employees Police and Fire Fund</u>	<u>Public Employees Correctional Fund</u>
2005	\$ 223,265	\$ 39,678	\$ 15,322
2004	215,329	38,394	14,177
2003	208,868	38,929	10,797

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

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

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, 2005, 2004, and 2003, were \$7,176, \$6,746, and \$5,795, respectively, equal to the contractually required contributions for each year as set by state statute.

5. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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



**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

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

B. Joint Ventures

Red Rock Rural Water System

The Red Rock Rural Water System was established pursuant to Minn. Stat. ch. 116A, through a joint powers agreement, pursuant to Minn. Stat. § 471.59, and under the jurisdiction of the Fifth Judicial District. 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. At December 31, 2005, long-term liabilities consist of governmental activities' bonded indebtedness of \$6,490,000, and business-type activities' notes and bonds payable of \$263,397. The Water System's total combined net assets increased by \$133,377 in 2005. 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 government together to ensure a unified, unduplicated, and family-friendly system of intervention and care for families and children.

Control of the Collaborative is vested in a Board of Directors consisting of seven members. Brown County Family Services acts as fiscal agent for the Collaborative. The Collaborative is financed by Local Collaborative Time Study (LCTS) funds. During 2005, 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 termination shall be distributed by the

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Three Counties for Kids Collaborative (Continued)

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 2005, 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 termination shall be distributed by resolution of the Joint Powers Board in accordance with law and in a manner to best accomplish the purpose of the Collaborative.

Rural Minnesota Energy Board

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

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Rural Minnesota Energy Board (Continued)

The governing body is composed of one voting member and one alternate member from each participating county's Board of Commissioners. The Board shall remain in existence as long as two or more counties remain parties to the agreement. Should the Board cease to exist, assets shall be liquidated after payment of liabilities, based upon the ratios set out under the equal and proportionate share articles of the agreement. During 2005, Watonwan County made no contributions to the Board.

C. 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 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 \$56,250 of services.

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 Joint Powers Board.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

---

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

D. Agricultural Best Management Loan Program

The County has entered into an agreement with the Minnesota Department of Agriculture and a local lending institution to jointly administer a loan program to individuals to implement projects that prevent or mitigate non-point source water pollution. While the County is not liable for the repayment of the loan in any manner, it does have certain responsibilities under the agreement. The County has met those responsibilities for 2005.

E. Special Benefit Tax Levy

In 1993, the South Central Minnesota Multi-County Housing Authority issued \$20,315,000 of revenue bonds to construct housing units in Watonwan County and four surrounding counties. The Authority has since defaulted on these bonds. In 2000, the counties entered into a settlement agreement where each county 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 2005 is \$75,269. The proportionate share of the counties may change for years 2006 through 2024 if there are changes in the taxable market value over the 2001 taxable market value.

**GOVERNMENTAL FUNDS**

This page was left blank intentionally.

**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.

This page was left blank intentionally.



**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**Statement 1**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2005**

	Special Revenue Funds			
	County Library	County Ditch	Solid Waste	Total
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 402,027	\$ 193,448	\$ 351,615	\$ 947,090
Taxes receivable				
Prior	10,905	-	300	11,205
Special assessments receivable				
Prior	-	115	10,883	10,998
Noncurrent	-	129,995	-	129,995
Accounts receivable	733	-	-	733
Accrued interest receivable	1,451	-	-	1,451
Due from other funds	-	63	-	63
Due from other governments	-	30,069	-	30,069
<b>Total Assets</b>	<b>\$ 415,116</b>	<b>\$ 353,690</b>	<b>\$ 362,798</b>	<b>\$ 1,131,604</b>
<b><u>Liabilities and Fund Balances</u></b>				
<b>Liabilities</b>				
Accounts payable	\$ 2,946	\$ 54	\$ 11,617	\$ 14,617
Salaries payable	6,696	-	-	6,696
Due to other funds	-	1,335	17	1,352
Due to other governments	-	16,090	-	16,090
Deferred revenue - unavailable	8,752	130,110	7,982	146,844
Deferred revenue - unearned	190	-	5	195
Advance from other funds	-	137,716	-	137,716
<b>Total Liabilities</b>	<b>\$ 18,584</b>	<b>\$ 285,305</b>	<b>\$ 19,621</b>	<b>\$ 323,510</b>
<b>Fund Balances</b>				
Reserved for donations	\$ 159,835	\$ -	\$ -	\$ 159,835
Unreserved				
Designated for cash flows	236,697	-	6,611	243,308
Undesignated	-	68,385	336,566	404,951
<b>Total Fund Balances</b>	<b>\$ 396,532</b>	<b>\$ 68,385</b>	<b>\$ 343,177</b>	<b>\$ 808,094</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 415,116</b>	<b>\$ 353,690</b>	<b>\$ 362,798</b>	<b>\$ 1,131,604</b>

**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, 2005**

	Special Revenue Funds			
	County Library	County Ditch	Solid Waste	Total
<b>Revenues</b>				
Taxes	\$ 364,880	\$ -	\$ 8,140	\$ 373,020
Special assessments	-	34,641	131,049	165,690
Intergovernmental	125,597	-	51,877	177,474
Charges for services	4,822	-	-	4,822
Fines and forfeits	8,317	-	-	8,317
Gifts and contributions	2,455	-	-	2,455
Investment earnings	4,423	-	-	4,423
Miscellaneous	866	-	3,186	4,052
<b>Total Revenues</b>	<b>\$ 511,360</b>	<b>\$ 34,641</b>	<b>\$ 194,252</b>	<b>\$ 740,253</b>
<b>Expenditures</b>				
<b>Current</b>				
Sanitation	\$ -	\$ -	\$ 176,511	\$ 176,511
Culture and recreation	533,197	-	-	533,197
Conservation of natural resources	-	104,676	-	104,676
<b>Total Expenditures</b>	<b>\$ 533,197</b>	<b>\$ 104,676</b>	<b>\$ 176,511</b>	<b>\$ 814,384</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (21,837)</b>	<b>\$ (70,035)</b>	<b>\$ 17,741</b>	<b>\$ (74,131)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	1,691	3,623	-	5,314
<b>Net Change in Fund Balance</b>	<b>\$ (20,146)</b>	<b>\$ (66,412)</b>	<b>\$ 17,741</b>	<b>\$ (68,817)</b>
<b>Fund Balance - January 1</b>	<b>416,678</b>	<b>134,797</b>	<b>325,436</b>	<b>876,911</b>
<b>Fund Balance - December 31</b>	<b>\$ 396,532</b>	<b>\$ 68,385</b>	<b>\$ 343,177</b>	<b>\$ 808,094</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**Statement 3**

**BUDGETARY COMPARISON SCHEDULE  
COUNTY LIBRARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Revenues</b>				
Taxes	\$ 412,967	\$ 365,864	\$ 364,880	\$ (984)
Intergovernmental	78,494	125,597	125,597	-
Charges for services	5,460	5,460	4,822	(638)
Fines and forfeits	9,283	9,283	8,317	(966)
Gifts and contributions	800	800	2,455	1,655
Investment earnings	2,752	2,752	4,423	1,671
Miscellaneous	-	-	866	866
<b>Total Revenues</b>	<b>\$ 509,756</b>	<b>\$ 509,756</b>	<b>\$ 511,360</b>	<b>\$ 1,604</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Culture and recreation</b>				
County library	509,756	509,756	533,197	(23,441)
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	\$ -	\$ -	\$ (21,837)	\$ (21,837)
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	1,691	1,691
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (20,146)</b>	<b>\$ (20,146)</b>
<b>Fund Balance - January 1</b>	<b>416,678</b>	<b>416,678</b>	<b>416,678</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 416,678</b>	<b>\$ 416,678</b>	<b>\$ 396,532</b>	<b>\$ (20,146)</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**Statement 4**

**BUDGETARY COMPARISON SCHEDULE  
COUNTY DITCH FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Revenues</b>				
Special assessments	\$ 21,533	\$ 21,533	\$ 34,641	\$ 13,108
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Other (ditch repairs)	21,533	21,533	104,676	(83,143)
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	\$ -	\$ -	\$ (70,035)	\$ (70,035)
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	3,623	3,623
<b>Net Change in Fund Balance</b>	\$ -	\$ -	\$ (66,412)	\$ (66,412)
<b>Fund Balance - January 1</b>	134,797	134,797	134,797	-
<b>Fund Balance - December 31</b>	<u>\$ 134,797</u>	<u>\$ 134,797</u>	<u>\$ 68,385</u>	<u>\$ (66,412)</u>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**Statement 5**

**BUDGETARY COMPARISON SCHEDULE  
SOLID WASTE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Revenues</b>				
Taxes	\$ 9,197	\$ 8,147	\$ 8,140	\$ (7)
Special assessments	130,000	130,000	131,049	1,049
Intergovernmental	45,527	46,577	51,877	5,300
Miscellaneous	4,110	4,110	3,186	(924)
<b>Total Revenues</b>	<b>\$ 188,834</b>	<b>\$ 188,834</b>	<b>\$ 194,252</b>	<b>\$ 5,418</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Sanitation</b>				
SCORE	186,668	186,668	176,511	10,157
<b>Net Change in Fund Balance</b>	<b>\$ 2,166</b>	<b>\$ 2,166</b>	<b>\$ 17,741</b>	<b>\$ 15,575</b>
<b>Fund Balance - January 1</b>	<b>325,436</b>	<b>325,436</b>	<b>325,436</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 327,602</b>	<b>\$ 327,602</b>	<b>\$ 343,177</b>	<b>\$ 15,575</b>

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**Statement 6**

**BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Revenues</b>				
Taxes	\$ 283,928	\$ 251,824	\$ 250,920	\$ (904)
Intergovernmental	21,399	53,503	54,003	500
Investment earnings	-	-	51,979	51,979
<b>Total Revenues</b>	<b>\$ 305,327</b>	<b>\$ 305,327</b>	<b>\$ 356,902</b>	<b>\$ 51,575</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 155,000	\$ 155,000	\$ 155,000	\$ -
Interest	150,327	150,327	207,589	(57,262)
Administrative charges	-	-	903	(903)
<b>Total Expenditures</b>	<b>\$ 305,327</b>	<b>\$ 305,327</b>	<b>\$ 363,492</b>	<b>\$ (58,165)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (6,590)</b>	<b>\$ (6,590)</b>
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of bonds	-	-	15,933	15,933
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 9,343</b>	<b>\$ 9,343</b>
<b>Fund Balance - January 1</b>	<b>2,331,461</b>	<b>2,331,461</b>	<b>2,331,461</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,331,461</b>	<b>\$ 2,331,461</b>	<b>\$ 2,340,804</b>	<b>\$ 9,343</b>

**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.

This page was left blank intentionally.



**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

*Statement 7*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<b><u>AGENCY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 23,015	\$ 2,036,535	\$ 2,039,793	\$ 19,757
<b><u>Liabilities</u></b>				
Due to other governments	\$ 23,015	\$ 2,036,535	\$ 2,039,793	\$ 19,757
<b><u>VISION FOR FAMILY AND COMMUNITY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 176,280	\$ 115,867	\$ 182,893	\$ 109,254
<b><u>Liabilities</u></b>				
Due to other governments	\$ 176,280	\$ 115,867	\$ 182,893	\$ 109,254
<b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 81,952	\$ 9,321,563	\$ 9,322,384	\$ 81,131
<b><u>Liabilities</u></b>				
Due to other governments	\$ 81,952	\$ 9,321,563	\$ 9,322,384	\$ 81,131
<b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 281,247	\$ 11,473,965	\$ 11,545,070	\$ 210,142
<b><u>Liabilities</u></b>				
Due to other governments	\$ 281,247	\$ 11,473,965	\$ 11,545,070	\$ 210,142

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**Schedule 1**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

**Shared Revenue**

**State**

Highway users tax	\$ 2,301,911
County program aid	977,763
PERA rate reimbursement	19,906
Disparity reduction aid	5,082
Police aid	33,426
Enhanced 911	35,512
Market value credit	619,763
Market value credit - manufactured homes	1,253

<b>Total Shared Revenue</b>	<b>\$ 3,994,616</b>
-----------------------------	---------------------

**Reimbursement for Services**

**State**

Minnesota Department of Human Services	<b>\$ 962,268</b>
--	-------------------

**Payments**

**Local**

City contribution	\$ 21,899
Payments in lieu of taxes	7,767

<b>Total Payments</b>	<b>\$ 29,666</b>
-----------------------	------------------

**Grants**

**State**

Minnesota Department of	
Public Safety	\$ 12,558
Health	70,160
Environmental Assistance	49,079
Natural Resources	6,426
Human Services	664,026
Veterans Affairs	1,400
Corrections	28,617
Transportation	109,254
Pollution Control Agency	50,000
Peace Officer Standards and Training Board	2,467
Water and Soil Resources Board	40,565

<b>Total State</b>	<b>\$ 1,034,552</b>
--------------------	---------------------

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**Schedule 1**  
**(Continued)**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

**Grants (Continued)**

**Federal**

Department of Agriculture	\$ 64,694
Justice	56,761
Transportation	27,280
Health and Human Services	264,327
Homeland Security	58,566

<b>Total Federal</b>	<b>\$ 471,628</b>
----------------------	-------------------

<b>Total State and Federal Grants</b>	<b>\$ 1,506,180</b>
---------------------------------------	---------------------

<b>Total Intergovernmental Revenue</b>	<b>\$ 6,492,730</b>
--	---------------------

This page was left blank intentionally.



This page was left blank intentionally.

**WATONWAN COUNTY  
ST. JAMES, MINNESOTA**

**Schedule 2**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

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

**INTERNAL CONTROL**

**ITEM ARISING THIS YEAR**

**05-1 Transit Department Segregation of Duties and Procedures**

Due to the limited number of office personnel within the Watonwan County Transit Department, segregation of the accounting functions necessary to ensure adequate internal control is not possible. There is only one employee to receive and account for departmental collections. This is not unusual in operations the size of Watonwan County; however, the County's management should constantly be aware of this condition and realize the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

Examples of incompatible duties that should be performed by separate individuals are:

- receipting collections, posting collections to registers, and making bank deposits;
- signing checks and reconciling the bank accounts;
- receipting collections and posting collections to the accounts receivable records;
- approving receivable write-offs/write-downs and posting adjustments to the accounts receivable records; and
- entering data, adjusting accounting codes, and reviewing the monthly detailed report of receipts and disbursements for accuracy.

Some procedures the County's management should implement to strengthen control in the Transit Department are:

- Departmental collections should be remitted to the County Treasurer more frequently than once each month, perhaps weekly or even daily, to reduce the amount of funds on hand.
- Checks should be endorsed immediately upon receipt.
- Daily receipts should be recorded on some type of ledger and reconciled, in some manner, to the services provided.

We recommend that the County's management be aware of the lack of segregation of duties within the accounting functions and implement procedures to ensure adequate controls are in place over cash, receivables, and other items.

Client's Response:

*A stamp has been purchased and when a check is received it is stamped immediately for deposit only.*

*All income received will be deposited in the bank on Friday or Monday, but at least once a week.*

*A spreadsheet will be developed to record daily receipts and used starting January 2, 2007.*

## **II. OTHER ITEM FOR CONSIDERATION**

### Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. These standards, similar to what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for



the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statements, accounting for OPEB is now similar to the accounting used by governments for pension plans.

Some of the issues that the County Board will need to address in order to comply with the statements are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the County Board will have to wait until legislation is enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard; and
- in order to determine annual costs and liabilities that need to be recognized, the County Board will have to decide whether to hire an actuary.

If applicable for Watonwan County, GASB Statements 43 and 45 would be implemented for the years ended December 31, 2007 and 2008, respectively.

This page was left blank intentionally.



REBECCA OTTO  
STATE AUDITOR

## STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

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

Board of County Commissioners  
Watonwan County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Watonwan County as of and for the year ended December 31, 2005, and have issued our report thereon dated November 21, 2006. 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. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying Schedule of Findings and Recommendations as item 05-1.

A material weakness is a reportable 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 caused by error or fraud 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition indicated above is not a material weakness.

### 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/Rebecca Otto

REBECCA OTTO  
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: November 21, 2006