

# STATE OF MINNESOTA

## Office of the State Auditor



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

---

**COTTONWOOD COUNTY**  
**WINDOM, MINNESOTA**

FOR THE YEAR ENDED DECEMBER 31, 2008

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

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

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

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

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

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

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

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

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

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

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 Office of the State Auditor's web site: [www.auditor.state.mn.us](http://www.auditor.state.mn.us).

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**For the Year Ended December 31, 2008**



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

This page was left blank intentionally.

**COTTONWOOD COUNTY  
WINDOM, 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	14
Statement of Activities	Exhibit 2	15
Fund Financial Statements		
Governmental Funds		
Balance Sheet	Exhibit 3	17
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets--Governmental Activities	Exhibit 4	19
Statement of Revenues, Expenditures, and Changes in Fund Balances	Exhibit 5	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	Exhibit 6	22
Proprietary Fund		
Statement of Fund Net Assets	Exhibit 7	23
Statement of Revenues, Expenses, and Changes in Fund Net Assets	Exhibit 8	24
Statement of Cash Flows	Exhibit 9	25
Fiduciary Funds		
Statement of Fiduciary Net Assets	Exhibit 10	27
Statement of Changes in Fiduciary Net Assets	Exhibit 11	28
Notes to the Financial Statements		29

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

TABLE OF CONTENTS

	Reference	Page
<b>Financial Section (Continued)</b>		
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	Schedule 1	67
Special Revenue Funds		
Road and Bridge Fund	Schedule 2	70
Family Services Fund	Schedule 3	71
Ditch Fund	Schedule 4	72
Building Fund	Schedule 5	73
Schedule of Funding Progress - Other Postemployment Benefits	Schedule 6	74
Notes to the Required Supplementary Information		75
Supplementary Information		
Combining Statement of Changes in Assets and Liabilities -		
All Agency Funds	Statement 1	77
Schedule of Intergovernmental Revenue	Schedule 7	79
<b>Management and Compliance Section</b>		
Schedule of Findings and Questioned Costs	Schedule 8	80
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>		88
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133		91
Schedule of Expenditures of Federal Awards	Schedule 9	94



This page was left blank intentionally.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

ORGANIZATION  
2008

Office	Name	Term Expires
<b>Commissioners</b>		
1st District	Gary Sorenson <sup>2</sup>	January 2011
2nd District	Ron Kuecker	January 2013
3rd District	Tom White	January 2011
4th District	Norm Holmen	January 2013
5th District	John Oeltjenbruns <sup>1</sup>	January 2011
<b>Officials</b>		
<b>Elected</b>		
Attorney	L. Douglas Storey	January 2011
Auditor/Treasurer	Jan Johnson	January 2011
County Recorder	Kathleen Kretsch	January 2011
Sheriff	Jason Purrington	January 2011
<b>Appointed</b>		
Assessor	Gale Bondhus	December 31, 2012
Highway Engineer	Ronald Gregg	May 31, 2013
Veterans Service Officer	Todd Dibble	Indefinite
Environmental Officer	Mike Hanson	Indefinite
Emergency Services Director	Mark Marcy	Indefinite
Family Service Director	Craig Myers	Indefinite

<sup>1</sup>Chair 2008

<sup>2</sup>Chair 2009

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  
Cottonwood County

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Cottonwood County as of and for the year ended December 31, 2008, 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Cottonwood County as of December 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1.D.10., Cottonwood County has implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

The Management's Discussion and Analysis, the Budgetary Comparison Schedules 1 through 5, and the Schedule of Funding Progress - Other Postemployment Benefits are not a required part of the basic financial statements but are 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 conducted for the purpose of forming opinions on the basic financial statements of Cottonwood County. The statement and schedules listed as supplementary information in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of Cottonwood 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 December 10, 2009, on our consideration of Cottonwood County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

December 10, 2009

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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

This page was left blank intentionally.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2008  
(Unaudited)**

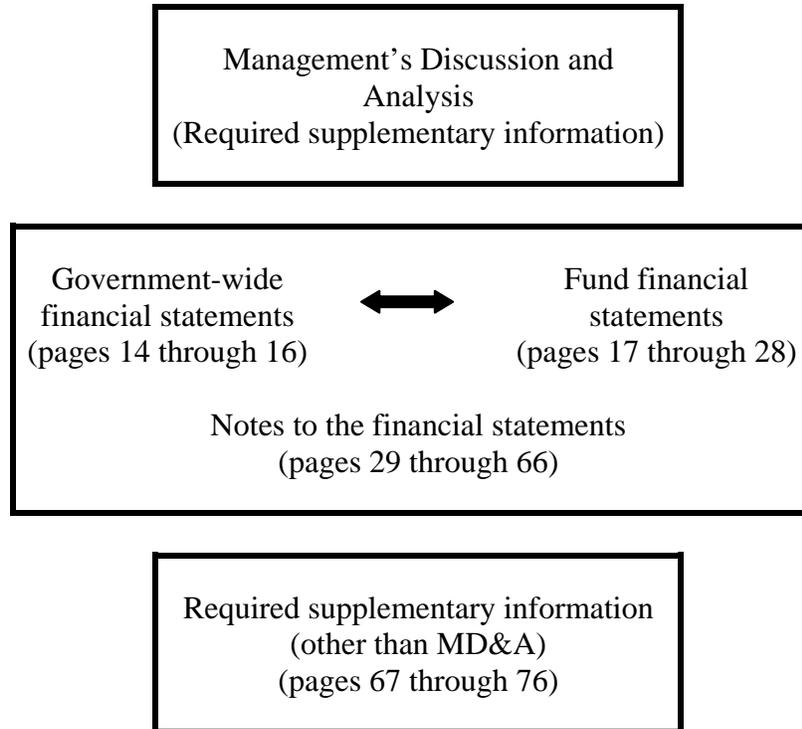
Cottonwood County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2008. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements (beginning on page 14).

**FINANCIAL HIGHLIGHTS**

- Governmental activities' total net assets are \$50,202,667, of which \$41,222,354 is invested in capital assets, net of related debt, leaving \$3,009,464 of the governmental activities' net assets restricted for specific uses and \$5,970,849 as unrestricted.
- Business-type activities have total net assets of \$1,645,518, of which \$378,021 is invested in capital assets, net of related debt, leaving \$1,574,164 of the business-type net assets restricted for specific uses and \$(306,667) as unrestricted.
- Cottonwood County's net assets increased by \$2,416,088 for the year ended December 31, 2008. Of the increase, \$2,300,573 was in the governmental activities' net assets; \$115,515 represented the increase in business-type activities' net assets.
- The net cost of governmental activities was \$5,227,568 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$7,590,428.
- Governmental funds' fund balances decreased by \$298,515. This net decrease was due mainly to decreased Road and Bridge Special Revenue Fund revenues.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This MD&A is intended to serve as an introduction to the basic financial statements. Cottonwood County's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The MD&A (this section) and other information are required to accompany the basic financial statements and, therefore, are included as required supplementary information. The following chart demonstrates how the different pieces are interrelated.



There are two government-wide financial statements. The Statement of Net Assets and the Statement of Activities (on pages 14 through 16) provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements start on page 17. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

**Government-Wide Financial Statements--The Statement of Net Assets and the Statement of Activities**

Our analysis of the County as a whole begins on page 14. The Statement of Net Assets and the Statement of Activities report information about the County as a whole and about its activities in a way that helps the reader determine whether the County's financial condition has improved or declined as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the County's net assets and changes in net assets. You can think of the County's net assets--the difference between assets and liabilities--as one way to measure the County's financial health, or financial position. Over time, increases or decreases in the County's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the County's property tax base and the condition of County roads, to assess the overall health of the County.

In the Statement of Net Assets and the Statement of Activities, the County is divided into two kinds of activities:

- Governmental activities--Most of the County's basic services are reported here, including general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development. Property taxes and state and federal grants finance most of these activities.
- Business-type activities--The County charges a fee to customers to help it cover all or most of the cost of services it provides. The County's solid waste landfill activities are reported here.

### **Fund Financial Statements**

Our analysis of the County's major funds begins on page 17. The fund financial statements provide detailed information about the significant funds--not the County as a whole. Some funds are required to be established by state law and by bond covenants. However, the County Board establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The County's two kinds of funds--governmental and proprietary--use different accounting methods.

- Governmental funds--Most of the County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds are described in a reconciliation following each governmental fund financial statement.

- Proprietary funds--When the County charges customers for the services it provides--whether to outside customers or to other units of the County--these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the County's enterprise fund presents the same information as the business-type activities in the government-wide statements but provides more detail and additional information, such as cash flows.

## Reporting the County's Fiduciary Responsibilities

The County is the trustee, or fiduciary, over assets that can be used only for the trust beneficiaries based on the trust arrangement. All of the County's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 27 and 28. We exclude these activities from the County's other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

## Other Information

In addition to the basic financial statements and notes, this report also presents certain required supplementary information concerning Cottonwood County's progress in funding its obligation to provide other postemployment benefits to its employees. Required supplementary information can be found on page 74.

## THE COUNTY AS A WHOLE

The County's combined net assets are \$51,848,185. Looking at the net assets and net expenses of governmental and business-type activities separately, however, two different stories emerge. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the County's governmental and business-type activities.

**Table 1**  
**Net Assets**

	2008			2007 (Restated)
	Governmental Activities	Business-Type Activities	Total	
Assets				
Current and other assets	\$ 13,406,209	\$ 2,538,160	\$ 15,944,369	\$ 14,636,264
Capital assets	41,256,794	378,021	41,634,815	40,606,974
<b>Total Assets</b>	<b>\$ 54,663,003</b>	<b>\$ 2,916,181</b>	<b>\$ 57,579,184</b>	<b>\$ 55,243,238</b>
Liabilities				
Long-term liabilities	\$ 3,538,777	\$ 1,208,196	\$ 4,746,973	\$ 5,095,171
Other liabilities	921,559	62,467	984,026	778,257
<b>Total Liabilities</b>	<b>\$ 4,460,336</b>	<b>\$ 1,270,663</b>	<b>\$ 5,730,999</b>	<b>\$ 5,873,428</b>

	2008			2007 (Restated)
	Governmental Activities	Business-Type Activities	Total	
Net Assets				
Invested in capital assets, net of related debt	\$ 41,222,354	\$ 378,021	\$ 41,600,375	\$ 40,556,250
Restricted	3,009,464	1,574,164	4,583,628	2,516,638
Unrestricted	5,970,849	(306,667)	5,664,182	6,296,922
Total Net Assets	\$ 50,202,667	\$ 1,645,518	\$ 51,848,185	\$ 49,369,810

Net assets of the County's governmental activities were \$50,202,667. Unrestricted net assets--the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements--were \$5,970,849 at the end of the year. The net assets of business-type activities were \$1,645,518.

**Table 2**  
**Changes in Net Assets**  
**(in Thousands)**

	2008			2007 (Restated)
	Governmental Activities	Business-Type Activities	Total	
Revenues				
Program revenues				
Fees, fines, and charges	\$ 1,276	\$ 393	\$ 1,669	\$ 2,517
Operating grants and contributions	3,844	-	3,844	3,923
Capital grants and contributions	2,707	-	2,707	2,102
General revenues				
Property taxes	5,607	92	5,699	5,357
Other taxes	7	-	7	8
Grants, gifts, and miscellaneous	2,068	9	2,077	2,146
Total Revenues	\$ 15,509	\$ 494	\$ 16,003	\$ 16,053
Expenses				
General government	\$ 2,626	\$ -	\$ 2,626	\$ 2,321
Public safety	1,979	-	1,979	1,809
Highways and streets	2,640	-	2,640	3,272
Sanitation	215	-	215	229
Human services	4,374	-	4,374	4,184
Health	127	-	127	128
Culture and recreation	276	-	276	212
Conservation of natural resources	739	-	739	673
Interest	79	-	79	62
Landfill	-	470	470	336
Total Expenses	\$ 13,055	\$ 470	\$ 13,525	\$ 13,226
Increase (Decrease) Before Transfers	\$ 2,454	\$ 24	\$ 2,478	\$ 2,827
Transfers	(91)	91	-	-
Increase (Decrease) in Net Assets	\$ 2,363	\$ 115	\$ 2,478	\$ 2,827
Net Assets - January 1, restated	47,840	1,530	49,370	46,543
Net Assets - December 31	\$ 50,203	\$ 1,645	\$ 51,848	\$ 49,370

(Unaudited)

Page 8

The County's activities increased net assets by 5.02 percent (\$51,848,185 for 2008 compared to \$49,369,810 for 2007).

## TOTAL COUNTY REVENUE

### Governmental Activities

Revenues for the County's governmental activities were \$15,509,162, while total expenses were \$13,054,876, and transfers out were \$91,426. This reflects a \$2,362,860 increase in net assets for the year ended December 31, 2008.

### Business-Type Activities

Revenues of the County's business-type activities (see Table 2) were \$494,317, transfers in were \$91,426, and expenses were \$470,228. This reflects a \$115,515 increase in net assets for the year ending December 31, 2008.

### Governmental Activities' Expenses

The cost of the County's governmental activities this year was \$13,054,876. However, as shown in the Statement of Activities on pages 15 and 16, the amount that taxpayers ultimately financed for these activities through County taxes was \$5,227,568, because some of the cost was paid by those who directly benefited from the programs (\$1,275,860) or by other governments and organizations that subsidized certain programs with grants and contributions (\$6,551,448).

Table 3 presents the cost of each of the County's five largest program functions, as well as each function's net cost (total cost, less revenues generated by the activities). The net cost shows the financial burden that was placed on the County's taxpayers by each of these functions.

**Table 3**  
**Governmental Activities**  
**(in Thousands)**

	Total Cost of Services 2008	Net Cost of Services 2008
Human services	\$ 4,374	\$ 2,133
Highways and streets	2,640	(1,531)
General government	2,626	2,172
Public safety	1,979	1,695
Conservation of natural resources	739	407
All others	697	352
Totals	<u>\$ 13,055</u>	<u>\$ 5,228</u>

## THE COUNTY'S FUNDS

As the County completed the year, its governmental funds (as presented in the Balance Sheet on pages 17 through 18) reported a combined fund balance of \$7,589,571, which is below last year's total of \$7,926,069 (restated). The governmental funds' change in fund balance (a decrease of \$336,498 for 2008) represents a 4.25 percent decrease in governmental fund balances. Most of the governmental funds' decrease is due to the Road and Bridge Special Revenue Fund spending \$369,000 more than it received.

### General Fund Budgetary Highlights

Over the course of the year, the County Board revised the County's General Fund budget several times. These budget amendments fall into two categories: new information changing original budget estimations and greater than anticipated revenues or costs.

Even with these adjustments, the actual charges to appropriations (expenditures) were \$251,419 above the final budget amounts. The reason for significant variances of actual expenditures from final budget is expenditures made from departments without budgeted expenses and unbudgeted programs, such as the County low-interest septic loan program.

On the other hand, resources available for appropriation were also \$709,581 above the final budgeted amount. Increased investment earnings and additional, unbudgeted special assessments helped to offset unbudgeted expenditures.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2008, the County had \$41,634,815 invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment. (See Table 4.) This amount represents a net increase (including additions and deductions) of \$1,027,841, or 2.5 percent, over last year.

**Table 4**  
**Changes in Capital Assets During 2008**

#### Governmental Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 311,551	\$ -	\$ -	\$ 311,551
Right-of-way	753,209	-	-	753,209
Construction in progress	618,420	841,598	563,470	896,548
Total capital assets not depreciated	<u>\$ 1,683,180</u>	<u>\$ 841,598</u>	<u>\$ 563,470</u>	<u>\$ 1,961,308</u>

(Unaudited)

Page 10

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Buildings	\$ 4,335,096	\$ 16,944	\$ -	\$ 4,352,040
Machinery and equipment	4,845,648	255,844	195,503	4,905,989
Infrastructure	44,900,230	1,796,303	-	46,696,533
Total capital assets depreciated	\$ 54,080,974	\$ 2,069,091	\$ 195,503	\$ 55,954,562
Less: accumulated depreciation for				
Buildings	\$ 1,816,513	\$ 109,443	\$ -	\$ 1,925,956
Machinery and equipment	3,192,814	265,853	195,503	3,263,164
Infrastructure	10,552,844	917,112	-	11,469,956
Total accumulated depreciation	\$ 15,562,171	\$ 1,292,408	\$ 195,503	\$ 16,659,076
Total capital assets depreciated, net	\$ 38,518,803	\$ 776,683	\$ -	\$ 39,295,486
Governmental Activities Capital Assets, Net	\$ 40,201,983	\$ 1,618,281	\$ 563,470	\$ 41,256,794

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 163,882	\$ -	\$ -	\$ 163,882
Capital assets depreciated				
Buildings	\$ 23,700	\$ -	\$ -	\$ 23,700
Machinery and equipment	504,660	15,453	-	520,113
Total capital assets depreciated	\$ 528,360	\$ 15,453	\$ -	\$ 543,813
Less: accumulated depreciation for				
Buildings	\$ 18,236	\$ 790	\$ -	\$ 19,026
Machinery and equipment	269,015	41,633	-	310,648
Total accumulated depreciation	\$ 287,251	\$ 42,423	\$ -	\$ 329,674
Total capital assets depreciated, net	\$ 241,109	\$ (26,970)	\$ -	\$ 214,139
Business-Type Activities Capital Assets, Net	\$ 404,991	\$ (26,970)	\$ -	\$ 378,021

The capital asset events this year were primarily the addition of roads and bridges (infrastructure) and the purchase of equipment.

The County's fiscal year 2008 capital budget called for it to spend \$2,596,400 on highway and bridge construction and \$629,100 on road and bridge equipment purchases, all to be financed with resources on hand in existing County funds. For the other projects, it used resources on hand in the County's Road and Bridge Special Revenue Fund.

## Debt

At the end of the current fiscal year, the County had total outstanding debt of \$4,746,973, versus \$5,095,171 last year--a decrease of 6.83 percent--as shown in Table 5.

**Table 5**  
**Changes in Outstanding Debt During 2008**

### Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable (fund liquidating the debt)					
Special assessment debt with government commitment (Ditch)	\$ 1,900,000	\$ -	\$ 170,000	\$ 1,730,000	\$ 175,000
Less: unamortized discount	(24,845)	-	(2,485)	(22,360)	-
Total bonds payable	\$ 1,875,155	\$ -	\$ 167,515	\$ 1,707,640	\$ 175,000
Loans payable	1,248,910	75,301	173,670	1,150,541	153,393
Capital lease	50,724	-	16,284	34,440	16,400
Compensated absences	630,715	15,441	-	646,156	44,585
Governmental Activities Long-Term Liabilities	<u>\$ 3,805,504</u>	<u>\$ 90,742</u>	<u>\$ 357,469</u>	<u>\$ 3,538,777</u>	<u>\$ 389,378</u>

### Business-Type Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable					
General obligation bonds	\$ 150,000	\$ -	\$ 75,000	\$ 75,000	\$ 75,000
Less: unamortized discount	(1,241)	-	(1,241)	-	-
Total bonds payable	\$ 148,759	\$ -	\$ 73,759	\$ 75,000	\$ 75,000
Estimated liability for landfill closure and postclosure care	1,124,692	-	8,490	1,116,202	-
Compensated absences	16,216	778	-	16,994	-
Business-Type Activities Long-Term Liabilities	<u>\$ 1,289,667</u>	<u>\$ 778</u>	<u>\$ 82,249</u>	<u>\$ 1,208,196</u>	<u>\$ 75,000</u>

The County's general obligation bond rating is currently an A3. This rating is assigned by national rating agencies. The state limits the amount of net debt that counties can issue to three percent of the market value of all taxable property (\$1,397,175,100) in the county. The County's outstanding net debt (\$4,746,973) is significantly below this state-imposed limit (\$41,915,253).

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The County's elected and appointed officials considered many factors when setting landfill fees, the fiscal year 2009 budget, and property tax rates.

- Cottonwood County is anticipating reductions of state aids to local governments. The County will do its best to maintain a stable service environment even if state reductions are implemented.
- County General Fund expenditures for 2009 are budgeted to increase 9.8 percent from 2008.
- Property taxes levied have increased 3.232 percent for 2009.

## **CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the County Auditor/Treasurer, Jan Johnson, Cottonwood County Courthouse, 900 - 3rd Avenue, Windom, Minnesota 56101.

## **BASIC FINANCIAL STATEMENTS**

This page was left blank intentionally.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

This page was left blank intentionally.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2008**

	Governmental Activities	Business-Type Activities	Total
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 7,834,095	\$ 946,660	\$ 8,780,755
Receivables - net	5,370,459	17,509	5,387,968
Internal balances	173	(173)	-
Inventories	133,848	-	133,848
Prepaid items	2,934	-	2,934
Restricted assets			
Cash and pooled investments	-	1,572,261	1,572,261
Taxes receivable - prior	-	1,903	1,903
Deferred charges	18,612	-	18,612
Net OPEB asset	46,088	-	46,088
Capital assets			
Non-depreciable capital assets	1,961,308	163,882	2,125,190
Depreciable capital assets - net of accumulated depreciation	39,295,486	214,139	39,509,625
<b>Total Assets</b>	<b>\$ 54,663,003</b>	<b>\$ 2,916,181</b>	<b>\$ 57,579,184</b>
<b><u>Liabilities</u></b>			
Accounts payable and other current liabilities	\$ 820,894	\$ 62,467	\$ 883,361
Accrued interest payable	25,107	-	25,107
Unearned revenue	75,558	-	75,558
Long-term liabilities			
Due within one year	389,378	75,000	464,378
Due in more than one year	3,149,399	1,133,196	4,282,595
<b>Total Liabilities</b>	<b>\$ 4,460,336</b>	<b>\$ 1,270,663</b>	<b>\$ 5,730,999</b>
<b><u>Net Assets</u></b>			
Invested in capital assets - net of related debt	\$ 41,222,354	\$ 378,021	\$ 41,600,375
Restricted for			
Public safety	269,864	-	269,864
Human services	21,674	-	21,674
Highways and streets	2,291,780	-	2,291,780
Debt service	-	2,616	2,616
Conservation of natural resources	154,114	-	154,114
Economic development	25,886	-	25,886
Postclosure	-	1,571,548	1,571,548
Other purposes	246,146	-	246,146
Unrestricted	5,970,849	(306,667)	5,664,182
<b>Total Net Assets</b>	<b>\$ 50,202,667</b>	<b>\$ 1,645,518</b>	<b>\$ 51,848,185</b>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<b>Expenses</b>	<b>Fees, Charges, Fines, and Other</b>
<b>Functions/Programs</b>		
<b>Governmental activities</b>		
General government	\$ 2,626,179	\$ 297,469
Public safety	1,979,183	93,778
Highways and streets	2,640,357	56,943
Sanitation	214,712	202,009
Human services	4,374,356	423,291
Health	126,606	-
Culture and recreation	275,859	41,524
Conservation of natural resources	739,036	160,846
Interest	78,588	-
<b>Total governmental activities</b>	<b>\$ 13,054,876</b>	<b>\$ 1,275,860</b>
<b>Business-type activities</b>		
Landfill	470,228	393,286
<b>Total</b>	<b>\$ 13,525,104</b>	<b>\$ 1,669,146</b>

**General Revenues**

Property taxes  
Mortgage registry and deed tax  
Grants and contributions not restricted to specific programs  
Payment in lieu of tax  
Investment income  
Miscellaneous

**Transfers**

**Total general revenues and transfers**

**Change in net assets**

Net Assets - January 1, as previously reported  
Restatement (Note 1.E.)

**Net Assets - January 1, restated**

**Net Assets - December 31**

**EXHIBIT 2**

<b>Program Revenues</b>		<b>Net (Expense) Revenue and Changes in Net Assets</b>		
<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ 135,594	\$ 21,086	\$ (2,172,030)	\$ -	\$ (2,172,030)
190,677	-	(1,694,728)	-	(1,694,728)
1,428,059	2,686,626	1,531,271	-	1,531,271
55,000	-	42,297	-	42,297
1,817,912	-	(2,133,153)	-	(2,133,153)
-	-	(126,606)	-	(126,606)
44,984	-	(189,351)	-	(189,351)
171,510	-	(406,680)	-	(406,680)
-	-	(78,588)	-	(78,588)
<b>\$ 3,843,736</b>	<b>\$ 2,707,712</b>	<b>\$ (5,227,568)</b>	<b>\$ -</b>	<b>\$ (5,227,568)</b>
-	-	-	(76,942)	(76,942)
<b>\$ 3,843,736</b>	<b>\$ 2,707,712</b>	<b>\$ (5,227,568)</b>	<b>\$ (76,942)</b>	<b>\$ (5,304,510)</b>
		\$ 5,606,744	\$ 91,914	\$ 5,698,658
		6,622	-	6,622
		1,312,381	9,117	1,321,498
		94,174	-	94,174
		466,783	-	466,783
		195,150	-	195,150
		(91,426)	91,426	-
		<b>\$ 7,590,428</b>	<b>\$ 192,457</b>	<b>\$ 7,782,885</b>
		<b>\$ 2,362,860</b>	<b>\$ 115,515</b>	<b>\$ 2,478,375</b>
		\$ 47,902,094	\$ 1,530,003	\$ 49,432,097
		(62,287)	-	(62,287)
		<b>\$ 47,839,807</b>	<b>\$ 1,530,003</b>	<b>\$ 49,369,810</b>
		<b>\$ 50,202,667</b>	<b>\$ 1,645,518</b>	<b>\$ 51,848,185</b>

This page was left blank intentionally.

**FUND FINANCIAL STATEMENTS**

This page was left blank intentionally.

**GOVERNMENTAL FUNDS**

This page was left blank intentionally.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**EXHIBIT 3**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2008**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Ditch</u>	<u>Building</u>	<u>Total Governmental Funds</u>
<b>Assets</b>						
Cash and pooled investments	\$ 6,142,547	\$ -	\$ 1,074,009	\$ 497,550	\$ 68,832	\$ 7,782,938
Petty cash and change funds	3,150	-	-	-	-	3,150
Undistributed cash in agency funds	24,284	7,472	14,574	1,320	357	48,007
Taxes receivable						
Prior	37,282	12,699	25,137	-	650	75,768
Special assessments receivable						
Prior	21,097	1,063	-	169	-	22,329
Noncurrent	787,127	-	-	1,659,584	-	2,446,711
Accounts receivable	16,850	-	21,250	-	-	38,100
Accrued interest receivable	53,659	-	-	-	-	53,659
Loans receivable	25,000	-	-	-	-	25,000
Due from other funds	1,327	1,461	66	-	-	2,854
Due from other governments	40,024	2,538,559	130,309	-	-	2,708,892
Inventories	-	133,848	-	-	-	133,848
Interfund receivable	179,912	-	-	-	-	179,912
Advances to other funds	145,788	-	-	-	-	145,788
Prepaid items	2,934	-	-	-	-	2,934
<b>Total Assets</b>	<b><u>\$ 7,480,981</u></b>	<b><u>\$ 2,695,102</u></b>	<b><u>\$ 1,265,345</u></b>	<b><u>\$ 2,158,623</u></b>	<b><u>\$ 69,839</u></b>	<b><u>\$ 13,669,890</u></b>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**EXHIBIT 3  
(Continued)**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2008**

	<b>General</b>	<b>Road and Bridge</b>	<b>Family Services</b>	<b>Ditch</b>	<b>Building</b>	<b>Total Governmental Funds</b>
<b><u>Liabilities and Fund Balances</u></b>						
<b>Liabilities</b>						
Accounts payable	\$ 49,214	\$ 30,981	\$ 197,384	\$ 41,495	\$ 7,899	\$ 326,973
Salaries payable	123,344	45,062	77,069	-	-	245,475
Contracts payable	-	138,487	-	-	-	138,487
Due to other funds	1,354	-	1,327	-	-	2,681
Due to other governments	9,643	8,444	78,467	13,405	-	109,959
Deferred revenue - unavailable	882,734	2,287,212	25,137	1,659,753	650	4,855,486
Deferred revenue - unearned	75,558	-	-	-	-	75,558
Interfund payable	-	179,912	-	-	-	179,912
Advances from other funds	-	-	-	145,788	-	145,788
<b>Total Liabilities</b>	<b>\$ 1,141,847</b>	<b>\$ 2,690,098</b>	<b>\$ 379,384</b>	<b>\$ 1,860,441</b>	<b>\$ 8,549</b>	<b>\$ 6,080,319</b>
<b>Fund Balances</b>						
Reserved for						
Inventories	\$ -	\$ 133,848	\$ -	\$ -	\$ -	\$ 133,848
Advances to other funds	145,788	-	-	-	-	145,788
Low-interest small business loans	25,886	-	-	-	-	25,886
Sheriff's contingency	1,374	-	-	-	-	1,374
Permit to carry	9,262	-	-	-	-	9,262
Enhanced 911	268,490	-	-	-	-	268,490
Loans receivable	25,000	-	-	-	-	25,000
Prepaid items	2,934	-	-	-	-	2,934
Missing heirs	3,425	-	-	-	-	3,425
Law library	33,679	-	-	-	-	33,679
Recorder's technology fund	55,129	-	-	-	-	55,129
Recorder's compliance fund	51,686	-	-	-	-	51,686
Canteen fund	14,981	-	-	-	-	14,981
Transportation	24,026	-	-	-	-	24,026
Highway allotments	-	39,915	-	-	-	39,915
Septic/sewer loans	499,684	-	-	-	-	499,684
Election equipment	78,201	-	-	-	-	78,201
Unspent grant monies	-	-	21,674	-	-	21,674
Unreserved						
Designated for unrealized gain on investments	83,030	-	-	-	-	83,030
Undesignated	5,016,559	(168,759)	864,287	298,182	61,290	6,071,559
<b>Total Fund Balances</b>	<b>\$ 6,339,134</b>	<b>\$ 5,004</b>	<b>\$ 885,961</b>	<b>\$ 298,182</b>	<b>\$ 61,290</b>	<b>\$ 7,589,571</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 7,480,981</b>	<b>\$ 2,695,102</b>	<b>\$ 1,265,345</b>	<b>\$ 2,158,623</b>	<b>\$ 69,839</b>	<b>\$ 13,669,890</b>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2008**

<b>Fund balances - total governmental funds (Exhibit 3)</b>	<b>\$</b>	<b>7,589,571</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.		41,256,794
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		4,855,486
Net OPEB assets		46,088
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (1,730,000)	
Capital leases	(34,440)	
Loans payable	(1,150,541)	
Compensated absences	(646,156)	
Accrued interest payable	(25,107)	
Unamortized discount on general obligation refunding bonds	22,360	
Deferred debt issuance charges	18,612	
		(3,545,272)
<b>Net Assets of Governmental Activities (Exhibit 1)</b>	<b>\$</b>	<b><u>50,202,667</u></b>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<b>General</b>	<b>Road and Bridge</b>
<b>Revenues</b>		
Taxes	\$ 2,825,170	\$ 890,733
Special assessments	385,805	38,865
Licenses and permits	9,673	-
Intergovernmental	1,628,390	2,521,947
Charges for services	334,708	48,783
Fines and forfeits	23,509	-
Gifts and contributions	9,000	-
Investment earnings	517,715	-
Miscellaneous	191,537	8,160
<b>Total Revenues</b>	<b>\$ 5,925,507</b>	<b>\$ 3,508,488</b>
<b>Expenditures</b>		
<b>Current</b>		
General government	\$ 2,295,563	\$ -
Public safety	1,933,978	-
Highways and streets	-	3,628,641
Sanitation	220,891	-
Human services	-	-
Health	1,841	-
Culture and recreation	248,221	-
Conservation of natural resources	518,475	-
<b>Intergovernmental</b>	122,300	253,033
<b>Debt service</b>		
Principal	189,955	-
Interest	13,021	-
Administrative (fiscal) charges	-	-
<b>Total Expenditures</b>	<b>\$ 5,544,245</b>	<b>\$ 3,881,674</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 381,262</b>	<b>\$ (373,186)</b>
<b>Other Financing Sources (Uses)</b>		
Transfers in	\$ 12,500	\$ 4,111
Transfers out	(283,252)	-
Loans issued	74,812	-
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (195,940)</b>	<b>\$ 4,111</b>
<b>Net Change in Fund Balances</b>	<b>\$ 185,322</b>	<b>\$ (369,075)</b>
Fund Balances - January 1, as previously reported	\$ 6,153,812	\$ 412,062
Prior period adjustment (Note 1.E.)	-	-
<b>Fund Balances - January 1</b>	<b>\$ 6,153,812</b>	<b>\$ 412,062</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>\$ -</b>	<b>\$ (37,983)</b>
<b>Fund Balances - December 31</b>	<b>\$ 6,339,134</b>	<b>\$ 5,004</b>

**EXHIBIT 5**

<b>Family Services</b>	<b>Ditch</b>	<b>Building</b>	<b>Total</b>
\$ 1,840,115	\$ -	\$ 45,089	\$ 5,601,107
-	326,132	-	750,802
-	-	-	9,673
2,008,770	-	4,559	6,163,666
44,866	-	-	428,357
-	-	-	23,509
-	-	-	9,000
-	-	-	517,715
378,425	991	93,595	672,708
<b>\$ 4,272,176</b>	<b>\$ 327,123</b>	<b>\$ 143,243</b>	<b>\$ 14,176,537</b>
\$ -	\$ -	\$ 257,613	\$ 2,553,176
-	-	-	1,933,978
-	-	-	3,628,641
-	-	-	220,891
4,327,099	-	-	4,327,099
-	-	-	1,841
-	-	-	248,221
-	216,108	-	734,583
-	-	-	375,333
-	170,000	-	359,955
-	61,081	-	74,102
-	618	-	618
<b>\$ 4,327,099</b>	<b>\$ 447,807</b>	<b>\$ 257,613</b>	<b>\$ 14,458,438</b>
<b>\$ (54,923)</b>	<b>\$ (120,684)</b>	<b>\$ (114,370)</b>	<b>\$ (281,901)</b>
\$ -	\$ 1,215	\$ 174,000	\$ 191,826
-	-	-	(283,252)
-	-	-	74,812
<b>\$ -</b>	<b>\$ 1,215</b>	<b>\$ 174,000</b>	<b>\$ (16,614)</b>
<b>\$ (54,923)</b>	<b>\$ (119,469)</b>	<b>\$ 59,630</b>	<b>\$ (298,515)</b>
\$ 1,003,171	\$ 417,651	\$ 1,660	\$ 7,988,356
(62,287)	-	-	(62,287)
<b>\$ 940,884</b>	<b>\$ 417,651</b>	<b>\$ 1,660</b>	<b>\$ 7,926,069</b>
\$ -	\$ -	\$ -	\$ (37,983)
<b>\$ 885,961</b>	<b>\$ 298,182</b>	<b>\$ 61,290</b>	<b>\$ 7,589,571</b>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**EXHIBIT 6**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**Net change in fund balances - total governmental funds (Exhibit 5)** **\$ (298,515)**

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

In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues between the fund statements and the statement of activities is the increase or decrease in revenues deferred as unavailable.

Deferred revenue - December 31	\$ 4,855,486	
Deferred revenue - January 1	<u>(3,522,861)</u>	1,332,625

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.

Expenditures for general capital assets	\$ 2,347,219	
Current year depreciation	<u>(1,292,408)</u>	1,054,811

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

Debt issued		
Septic loans		(75,301)

Principal payments		
General obligation bonds	\$ 170,000	
Capital lease	16,284	
Loans payable	<u>173,670</u>	359,954

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 accrued interest payable	\$ 1,175	
Amortization of discounts and deferred issuance charges	(4,553)	
Change in compensated absences	(15,441)	
Change in net OPEB	46,088	
Change in inventories	<u>(37,983)</u>	<u>(10,714)</u>

**Change in Net Assets of Governmental Activities (Exhibit 2)** **\$ 2,362,860**

**PROPRIETARY FUND**

This page was left blank intentionally.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**EXHIBIT 7**

**STATEMENT OF FUND NET ASSETS  
PROPRIETARY FUND  
DECEMBER 31, 2008**

	<b>Landfill Enterprise Fund</b>
<b><u>Assets</u></b>	
Current assets	
Cash and pooled investments	\$ 946,660
Accounts receivable - net	17,509
Due from other funds	7
Restricted assets	
Cash and pooled investments	1,571,548
Undistributed cash in agency funds	713
Taxes receivable	
Prior	1,903
<b>Total current assets</b>	<b>\$ 2,538,340</b>
Noncurrent assets	
Capital assets	
Nondepreciable	\$ 163,882
Depreciable - net	214,139
<b>Total noncurrent assets</b>	<b>\$ 378,021</b>
<b>Total Assets</b>	<b>\$ 2,916,361</b>
<b><u>Liabilities</u></b>	
Current liabilities	
Accounts payable	\$ 58,360
Salaries payable	4,107
Due to other funds	180
General obligation bonds payable - current	75,000
<b>Total current liabilities</b>	<b>\$ 137,647</b>
Noncurrent liabilities	
Compensated absences payable - long-term	\$ 16,994
Estimated liability for landfill closure/postclosure	1,116,202
<b>Total noncurrent liabilities</b>	<b>\$ 1,133,196</b>
<b>Total Liabilities</b>	<b>\$ 1,270,843</b>
<b><u>Net Assets</u></b>	
Invested in capital assets	\$ 378,021
Restricted for postclosure	1,571,548
Restricted for debt service	2,616
Unrestricted	(306,667)
<b>Total Net Assets</b>	<b>\$ 1,645,518</b>

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

Page 23

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**EXHIBIT 8**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Landfill Enterprise Fund</u>
<b>Operating Revenues</b>	
Charges for services	\$ 382,884
Miscellaneous	10,402
	<hr/>
<b>Total Operating Revenues</b>	<b>\$ 393,286</b>
<b>Operating Expenses</b>	
Personal services	\$ 130,251
Professional services	19,824
Other services and charges	273,365
Utilities	8,051
Depreciation	42,423
Landfill closure and postclosure costs	(8,490)
	<hr/>
<b>Total Operating Expenses</b>	<b>\$ 465,424</b>
<b>Operating Income (Loss)</b>	<b>\$ (72,138)</b>
<b>Nonoperating Revenues (Expenses)</b>	
Property taxes	\$ 91,914
Intergovernmental	9,117
Interest expense	(4,804)
	<hr/>
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ 96,227</b>
<b>Income (Loss) Before Transfers</b>	<b>\$ 24,089</b>
Transfers in	103,926
Transfers out	(12,500)
	<hr/>
<b>Change in Net Assets</b>	<b>\$ 115,515</b>
<b>Net Assets - January 1</b>	<b>1,530,003</b>
	<hr/>
<b>Net Assets - December 31</b>	<b>\$ 1,645,518</b>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**EXHIBIT 9**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008  
Increase (Decrease) in Cash and Cash Equivalents**

	<b>Landfill Enterprise Fund</b>
<b>Cash Flows from Operating Activities</b>	
Receipts from customers and users	\$ 403,377
Payments to suppliers	(249,720)
Payments to employees	(129,313)
	\$ 24,344
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 24,344</b>
<b>Cash Flows from Noncapital Financing Activities</b>	
Property taxes	\$ 90,557
Intergovernmental	9,117
Transfers in	103,926
Transfers out	(12,500)
	\$ 191,100
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>\$ 191,100</b>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Principal paid on long-term debt	\$ (75,000)
Interest paid on long-term debt	(3,563)
Purchase of capital assets	(15,453)
	\$ (94,016)
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>\$ (94,016)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ 121,428</b>
<b>Cash and Cash Equivalents - January 1</b>	<b>2,397,493</b>
<b>Cash and Cash Equivalents - December 31</b>	<b>\$ 2,518,921</b>
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets - Exhibit 7</b>	
Cash and pooled investments	\$ 946,660
Restricted cash and pooled investments	1,571,548
Undistributed cash in agency funds	713
	\$ 2,518,921
<b>Total Cash and Cash Equivalents - December 31</b>	<b>\$ 2,518,921</b>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**EXHIBIT 9  
(Continued)**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008  
Increase (Decrease) in Cash and Cash Equivalents**

	<u>Landfill Enterprise Fund</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>	
<b>Operating income (loss)</b>	<b>\$ (72,138)</b>
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</b>	
Depreciation expense	\$ 42,423
Landfill closure and postclosure expense	(8,490)
(Increase) decrease in accounts receivable	10,098
(Increase) decrease in due from other funds	(7)
Increase (decrease) in accounts payable	54,372
Increase (decrease) in salaries payable	160
Increase (decrease) in due to other funds	(2,852)
Increase (decrease) in compensated absences payable	778
<b>Total adjustments</b>	<b>\$ 96,482</b>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ 24,344</b>

**FIDUCIARY FUNDS**

This page was left blank intentionally.

COTTONWOOD COUNTY  
WINDOM, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2008

	<u>Investment Trust</u>	<u>Agency</u>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 160,576	\$ 1,339,928
Accrued interest receivable	197	-
<b>Total Assets</b>	<b>\$ 160,773</b>	<b>\$ 1,339,928</b>
<b><u>Liabilities</u></b>		
Due to other governments	-	<b>\$ 1,339,928</b>
<b><u>Net Assets</u></b>		
Net assets, held in trust for pool participant	<b>\$ 160,773</b>	

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

***EXHIBIT 11***

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Investment Trust</u>
<b><u>Additions</u></b>	
Contributions from participant	\$ 145,749
Investment income	<u>197</u>
<b>Total Additions</b>	<b>\$ 145,946</b>
<b><u>Deductions</u></b>	
Distributions to participants	<u>143,987</u>
<b>Change in Net Assets</b>	<b>\$ 1,959</b>
<b>Net Assets - January 1</b>	<u>158,814</u>
<b>Net Assets - December 31</b>	<b><u>\$ 160,773</u></b>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

---

---

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, 2008. 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 (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The County has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds and has chosen to do so. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Cottonwood County was established May 23, 1857, 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.

The County participates in joint ventures described in Note 7.B. The County also participates in jointly-governed organizations described in Note 7.C.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the primary government. 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. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

---

---

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

In the government-wide statement of net assets, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) are 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 and the business-type activities are offset by program revenues. Direct expenses are those 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, proprietary, and fiduciary--are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as a separate column in the fund financial statements. The County reports all of its funds as major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

---

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

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

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

The Ditch Special Revenue Fund is used to account for the cost of constructing and maintaining an agricultural drainage ditch system. Financing is provided by special assessments levied against benefited property.

The Building Special Revenue Fund is used to account for the cost of constructing and maintaining County buildings. Financing is provided by taxes levied and rental income.

The County reports the following major enterprise fund:

The Landfill Fund is used to account for the operation, maintenance, and development of the County solid waste landfill.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

---

---

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund types:

The Investment Trust Fund is used to account for the external pooled and non-pooled investments held on behalf of external participants.

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 government-wide, proprietary fund, 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Cottonwood County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, 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.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

---

---

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

The County has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Additionally, each fund's equity in the County's investment pool is treated as a cash equivalent because the funds can be deposited or effectively withdrawn from cash at any time without prior notice or penalty.

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled investments are reported at their fair value at December 31, 2008, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments of governmental and fiduciary funds are credited to the General Fund. Pooled investment earnings for 2008 were \$517,715.

Included in total cash and pooled investments are the assets held for the Cottonwood County Family Services Collaborative in an external investment pool. For the purposes of financial reporting, the Family Services Collaborative's portion of the County's pool of cash and investments is reported as an investment trust fund. Assets in the pool are reported at fair value based on quoted market prices. The pool is not subject to regulatory oversight, and the fair value of the position in the pool is the same as the pool shares. Fair value amounts are determined at year-end. The County has not provided or obtained any legally binding guarantees to support the value of the pool.

3. Receivables and Payables

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

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

---

---

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

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.

All receivables are shown net of an allowance for uncollectibles.

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.

4. Special Assessments Receivable

Special assessments receivable consist of delinquent special assessments and deferred special assessments. No provision has been made for an estimated uncollectible amount.

5. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories in proprietary funds and at the government-wide level are recorded as expenses when consumed.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

---

---

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

5. Inventories and Prepaid Items (Continued)

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

6. Restricted Assets

Certain funds of the County are classified as restricted assets on the statement of net assets because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

7. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-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 two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current period, the County did not have any capitalized interest.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

---

---

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

7. Capital Assets (Continued)

Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25 - 75
Building improvements	25
Public domain infrastructure	
Bridges	75
Roads	50
Machinery and equipment	3 - 15

8. Compensated Absences

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

9. Deferred Revenue

All County funds and the government-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.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

---

---

1. Summary of Significant Accounting Policies

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

10. Long-Term Obligations

In the government-wide financial statements, and in the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund 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 funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. 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.

Beginning in 2008, Cottonwood County implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement required the County to calculate and record a net other postemployment benefit (OPEB) obligation (asset) at December 31, 2008. The net OPEB obligation is, in general, the cumulative difference between the actuarial required contribution and the actual contributions since the actuarial valuation date of January 1, 2008.

11. Fund Equity

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

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

---

1. Summary of Significant Accounting Policies

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

12. Use of Estimates

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

E. Restatement of Net Assets

The net assets/fund balances at January 1, 2008, were restated to reflect an overstatement of the Family Services Special Revenue Fund fund balance in 2007 due to agency fund activity that was recognized as revenue by the fund. The following table summarizes these changes:

	Governmental Activities	Family Services Special Revenue Fund
Net Assets/Fund Balance - January 1, as previously reported	\$ 47,902,094	\$ 1,003,171
Restatement	(62,287)	(62,287)
Net Assets/Fund Balance - January 1, as restated	\$ 47,839,807	\$ 940,884

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

The following funds had expenditures in excess of budget for the year ended December 31, 2008:

Fund	Expenditures	Final Budget	Excess
General	\$ 5,544,245	\$ 5,292,826	\$ 251,419
Special Revenue			
Ditch	447,807	308,586	139,221
Building	257,613	237,500	20,113

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

---

---

2. Stewardship, Compliance, and Accountability (Continued)

Deficit Fund Equity

For internal accounting purposes, individual ditch system records are maintained on a basis which shows long-term debt payable, recognizes special assessments as revenues when levied, and does not eliminate interfund transactions. Using this basis of accounting, 9 of 92 drainage systems have deficit unreserved, undesignated fund balances at December 31, 2008. Although this method results in numbers not considered to be in conformity with GAAP for reporting, it provides necessary information by ditch for internal accounting purposes. The following is a summary of fund balances using this non-GAAP basis.

Account balances	\$ 718,432
Account balance deficits	<u>(316,823)</u>
Total	<u>\$ 401,609</u>

The Ditch Special Revenue Fund's deficit will be eliminated with future special assessment levies against benefited properties. The Ditch Special Revenue Fund had a fund balance of \$298,182 when reported on the modified accrual basis.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 7,834,095
Business-type activities	
Cash and pooled investments	946,660
Cash and pooled investments - restricted assets	1,572,261
Statement of fiduciary net assets	
Cash and pooled investments	<u>1,500,504</u>
Total Cash and Investments	<u>\$ 11,853,520</u>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

---

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

The County is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. County deposits are required by Minn. Stat. § 118A.03 to 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 at the close of the financial institution's banking day, not covered by insurance or bonds.

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County has adopted a policy for custodial credit risk by obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law. As of December 31, 2008, the County's deposits were not exposed to custodial credit risk.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

---

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

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

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

---

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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. The County minimizes its exposure to interest rate risk by investing in both short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County has adopted a policy for custodial credit risk by permitting brokers that obtained investments for the County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. At December 31, 2008, none of the County's investments were subject to custodial credit risk.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

---

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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 that U.S. Treasury securities, U.S. agency securities, and obligations backed by U.S. Treasury and/or U.S. agency securities may be held without limit.

The following table presents the County's cash and investment balances at December 31, 2008, and information relating to potential investment risks:

<u>Investment Type</u>	<u>Credit Risk</u>		<u>Concentration</u>	<u>Interest</u>	<u>Carrying</u>
	<u>Credit</u>	<u>Rating</u>	<u>Risk</u>	<u>Rate Risk</u>	
	<u>Rating</u>	<u>Agency</u>	<u>Over</u>	<u>Maturity</u>	<u>(Fair)</u>
			<u>5 Percent of</u>	<u>Date</u>	<u>Value</u>
			<u>Portfolio</u>		
Negotiable certificates of deposit	N/A	N/A	N/A	Various	\$ 7,182,539
Checking					3,517,238
Savings					354,593
Certificates of deposit					796,000
Petty cash					3,150
					3,150
Total Cash and Investments					\$ 11,853,520

N/A - Not Applicable

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

---

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2008, for the County's governmental activities and business-type activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 75,768	\$ -
Special assessments – prior	22,329	-
Special assessments – noncurrent	2,446,711	2,145,174
Accounts	38,100	-
Interest	53,659	-
Loans	25,000	-
Due from other governments	2,708,892	-
Total Governmental Activities	\$ 5,370,459	\$ 2,145,174
Business-Type Activities		
Taxes	\$ 1,903	\$ -
Accounts	17,509	-
Total Business-Type Activities	\$ 19,412	\$ -

Details on Loans Receivable

In 1989, Cottonwood County began a Seed Capital Loan Program with funds received from the Blandin Foundation, the Southwest Minnesota Initiative Fund, and local governments to provide low-interest, flexible-term loans for the development of new businesses or the expansion of existing ones.

At December 31, 2008, there is one loan outstanding of \$25,000 to Windom Economic Development. It is offset by deferred revenue.

Loan payments may be reloaned to other businesses. At December 31, 2008, the County has \$25,886 reserved for low-interest small business loans.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 311,551	\$ -	\$ -	\$ 311,551
Right-of-way	753,209	-	-	753,209
Construction in progress	618,420	841,598	563,470	896,548
Total capital assets not depreciated	\$ 1,683,180	\$ 841,598	\$ 563,470	\$ 1,961,308
Capital assets depreciated				
Buildings	\$ 4,335,096	\$ 16,944	\$ -	\$ 4,352,040
Machinery and equipment	4,845,648	255,844	195,503	4,905,989
Infrastructure	44,900,230	1,796,303	-	46,696,533
Total capital assets depreciated	\$ 54,080,974	\$ 2,069,091	\$ 195,503	\$ 55,954,562
Less: accumulated depreciation for				
Buildings	\$ 1,816,513	\$ 109,443	\$ -	\$ 1,925,956
Machinery and equipment	3,192,814	265,853	195,503	3,263,164
Infrastructure	10,552,844	917,112	-	11,469,956
Total accumulated depreciation	\$ 15,562,171	\$ 1,292,408	\$ 195,503	\$ 16,659,076
Total capital assets depreciated, net	\$ 38,518,803	\$ 776,683	\$ -	\$ 39,295,486
Governmental Activities Capital Assets, Net	\$ 40,201,983	\$ 1,618,281	\$ 563,470	\$ 41,256,794

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 163,882	\$ -	\$ -	\$ 163,882
Capital assets depreciated				
Buildings	\$ 23,700	\$ -	\$ -	\$ 23,700
Machinery and equipment	504,660	15,453	-	520,113
Total capital assets depreciated	\$ 528,360	\$ 15,453	\$ -	\$ 543,813

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Business-Type Activities (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	\$ 18,236	\$ 790	\$ -	\$ 19,026
Machinery and equipment	269,015	41,633	-	310,648
Total accumulated depreciation	\$ 287,251	\$ 42,423	\$ -	\$ 329,674
Total capital assets depreciated, net	\$ 241,109	\$ (26,970)	\$ -	\$ 214,139
Business-Type Activities				
Capital Assets, Net	\$ 404,991	\$ (26,970)	\$ -	\$ 378,021

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

Governmental Activities	
General government	\$ 45,661
Public safety	50,692
Highways and streets, including depreciation of infrastructure assets	1,121,285
Sanitation	3,839
Human services	27,276
Health	2,465
Culture and recreation	41,190
Total Depreciation Expense - Governmental Activities	\$ 1,292,408
Business-Type Activities	
Landfill	\$ 42,423

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2008, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Family Services	\$ 1,327
Road and Bridge	General	1,281
Road and Bridge	Landfill Enterprise	180
Family Services	General	66
Landfill Enterprise	General	7
Total Due To/From Other Funds		\$ 2,861

The outstanding balances between funds result from the time lag between the dates the interfund goods and services were provided and reimbursable expenditures occurred, and when transactions are recorded in the accounting system and when the funds are repaid. All balances are expected to be liquidated in the subsequent year.

2. Interfund Receivable/Payable

Receivable Fund	Payable Fund	Amount
General	Road and Bridge	\$ 179,912

The interfund receivable/payable balance is due to the Road and Bridge Special Revenue Fund overdrawing cash from the pooled cash and investments. The balance due is expected to be repaid within the subsequent year.

3. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General	Ditch	\$ 145,788

The advance is to provide working capital to a ditch system with low reserves and current operating costs in excess of its revenues. This balance will be paid from future ditch special assessments.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

---

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers (Continued)

4. Interfund Transfers

Interfund transfers for the year ended December 31, 2008, consisted of the following:

Transfers to General Fund from Landfill Fund	\$ 12,500	Provide funds for recycling
Transfer to Road and Bridge Fund from General Fund	4,111	Provide funding
Transfer to Ditch Fund from General Fund	1,215	Provide funding
Transfer to Building Fund from General Fund	174,000	Provide funding
Transfers to Landfill Fund from General Fund	<u>103,926</u>	Provide funding
Total Interfund Transfers	<u>\$ 295,752</u>	

C. Liabilities

1. Payables

Payables at December 31, 2008, were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts	\$ 326,973	\$ 58,360
Salaries	245,475	4,107
Contracts	138,487	-
Due to other governments	<u>109,959</u>	<u>-</u>
Total Payables	<u>\$ 820,894</u>	<u>\$ 62,467</u>

2. Construction Commitments

The government has active construction projects as of December 31, 2008. The projects include the following:

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Governmental Activities Roads and bridges	\$ -	\$ 39,915

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

---

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Other Postemployment Benefits (OPEB)

Elected Officials' Benefits

Elected County officials and their dependents and surviving spouses are entitled to one year of paid health insurance for every two years of service to the County. There is no maximum number of years for officials elected prior to 1995. Those elected after 1995 are restricted to a maximum of six years of coverage and, as of February 10, 2004, the maximum was reduced to four years. As of January 1, 2004, the maximum monthly contribution was set at \$720. This post-service benefit is funded on a pay-as-you-go basis. The County had six elected officials who were eligible for this benefit in 2008. The total cost for this program totaled \$47,070 in 2008.

The County also provides health insurance benefits for eligible retired employees and their spouses under a single-employer self-insured plan. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b. Retirees are required to pay 100 percent of the total premium cost. Since the premium is determined on the entire active and retiree population, the retirees are receiving implicit rate subsidy. This postemployment benefit is funded on a pay-as-you-go basis usually paying retiree benefits out of the General Fund. For 2008, there were approximately 120 participants in the plan, including 12 retirees. The implicit rate subsidy amount was determined by an actuarial study to be \$49,796 for 2008.

Annual OPEB Cost and Net OPEB Obligation

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

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

---

3. Detailed Notes on All Funds

C. Liabilities

3. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

ARC	\$	50,778
Interest on net OPEB obligation		-
Adjustment to ARC		-
		-
Annual OPEB cost (expense)	\$	50,778
Contributions made		(96,866)
		(96,866)
Increase (decrease) in net OPEB obligation	\$	(46,088)
Net OPEB Obligation (Asset) - January 1		-
		-
Net OPEB Obligation (Asset) - December 31	\$	(46,088)
		(46,088)

The County's annual OPEB cost for December 31, 2008, was \$50,778. The percentage of annual OPEB cost contributed to the plan was 190.8 percent, and the net OPEB asset for 2008 was \$46,088. Trend information for the previous two years is not available at this time based on the implementation date of December 31, 2008.

Funded Status and Funding Progress

As of January 1, 2008, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial liability for benefits was \$393,153, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$393,153. The covered payroll (annual payroll of active employees covered by the plan) was \$4,124,724, and the ratio of the UAAL to the covered payroll was 9.5 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the medical plan cost trend. Amounts determined regarding the funded status of

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

---

3. Detailed Notes on All Funds

C. Liabilities

3. Other Postemployment Benefits (OPEB)

Funded Status and Funding Progress (Continued)

the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

In the January 1, 2008, actuarial valuation, the projected unit credit actuarial and the entry age normal cost methods were used. The actuarial assumptions include a 3.0 percent investment rate of return (net of investment expenses), which is Cottonwood County's implicit rate of return on the General Fund. The medical plan cost trend rate is 8.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over five years. Neither rate includes an inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2008, was 29 years.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

---

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Capital Lease

The County has entered into a lease agreement with Alfa-Wireless for financing the upgrade to a 911 Motorola Gold Console in the Law Enforcement Center. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The lease is as follows at December 31, 2008:

<u>Capital Lease</u>	<u>Final Maturity</u>	<u>Installment Amount</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2008</u>
2005 Motorola Gold Console	2010	\$1,357	0.12	<u>\$ 82,950</u>	<u>\$ 34,440</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2008, were as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2009	\$ 16,590
2010	<u>18,115</u>
Total minimum lease payments	\$ 34,705
Less: amount representing interest	<u>(265)</u>
Present Value of Minimum Lease Payments	<u>\$ 34,440</u>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Long-Term Debt

Governmental Activities

Bonds Payable

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Average Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2008</u>
Special assessment bonds with government commitment					
2005 G.O. Drainage Crossover Refunding Bonds	2020	\$110,000 - \$175,000	3.5586	<u>\$ 1,900,000</u>	\$ 1,730,000
Less: unamortized discount					<u>(22,360)</u>
Total Governmental Activities, Net					<u>\$ 1,707,640</u>

Loans Payable

In 1996, the County agreed to act as loan and project sponsor for a project loan agreement made under the Clean Water Partnership Law with the State of Minnesota through the Minnesota Pollution Control Agency (PCA) and the Brown-Nicollet-Cottonwood Project Joint Powers Board. The County is required to repay these funds to the PCA. In 1998, additional Ag Well loan funds were received through the Minnesota Department of Agriculture. The loan terms and repayment are similar to those received through the PCA. The County is required to repay the funds to the Minnesota Department of Agriculture. In 2000, the County entered into the Watonwan Watershed Project loan program with \$370,000 available for site-specific groundwater improvement projects. All loans are secured by special assessments placed on the individual parcels requesting repair of a failing system. Loan payments are reported in the General Fund.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

5. Long-Term Debt (Continued)

Business-Type Activities

Bonds Payable

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Average Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2008</u>
General obligation bonds Series 2004 G.O. Landfill Bonds	2009	\$75,000	2.8688	\$ 365,000	\$ 75,000

6. Debt Service Requirements

Debt service requirements at December 31, 2008, were as follows:

Governmental Activities

<u>Year Ending December 31</u>	<u>Special Assessment Bonds</u>		<u>Loans Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 175,000	\$ 56,895	\$ 153,393	\$ 11,368
2010	160,000	52,468	117,656	9,850
2011	155,000	47,903	119,552	8,301
2012	160,000	43,017	131,490	6,720
2013	155,000	37,861	129,436	5,108
2014 - 2018	700,000	108,531	349,527	7,426
2019 - 2023	225,000	9,094	46,240	-
2024 - 2025	-	-	2,708	-
Total	\$ 1,730,000	\$ 355,769	\$ 1,050,002	\$ 48,773

Clean water loans in the amount of \$100,539 are not included in the debt service requirements because a fixed repayment schedule is not available.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

6. Debt Service Requirements (Continued)

Business-Type Activities

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 75,000	\$ 1,219

7. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable (fund liquidating the debt)					
Special assessment debt with government commitment (Ditch)	\$ 1,900,000	\$ -	\$ 170,000	\$ 1,730,000	\$ 175,000
Less: unamortized discount	(24,845)	-	(2,485)	(22,360)	-
Total bonds payable	\$ 1,875,155	\$ -	\$ 167,515	\$ 1,707,640	\$ 175,000
Loans payable	1,248,910	75,301	173,670	1,150,541	153,393
Capital lease	50,724	-	16,284	34,440	16,400
Compensated absences	630,715	15,441	-	646,156	44,585
Governmental Activities Long-Term Liabilities	\$ 3,805,504	\$ 90,742	\$ 357,469	\$ 3,538,777	\$ 389,378

Note: Included in the loans payable additions is a trivial adjustment of \$489 for accumulated interest on SRF0115.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

7. Changes in Long-Term Liabilities (Continued)

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 150,000	\$ -	\$ 75,000	\$ 75,000	\$ 75,000
Less: unamortized discount	(1,241)	-	(1,241)	-	-
Total bonds payable	\$ 148,759	\$ -	\$ 73,759	\$ 75,000	\$ 75,000
Estimated liability for landfill closure and postclosure care	1,124,692	-	8,490	1,116,202	-
Compensated absences	16,216	778	-	16,994	-
Business-Type Activities Long-Term Liabilities	<u>\$ 1,289,667</u>	<u>\$ 778</u>	<u>\$ 82,249</u>	<u>\$ 1,208,196</u>	<u>\$ 75,000</u>

4. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the County Board reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$1,116,202 landfill closure and postclosure care liability at December 31, 2008, represents the cumulative amount reported to date based on the use of 60 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$737,993 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2008.

The Board expects to close the landfill in 2035. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

---

---

4. Landfill Closure and Postclosure Care Costs (Continued)

The County is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The Board is in compliance with these requirements and, at December 31, 2008, the County has \$1,571,548 in restricted assets for these purposes. Cottonwood County expects that future inflation costs will be paid from investment earnings on these annual contributions. However, if investment earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws and regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

5. 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. The County has entered into joint powers agreements with other Minnesota municipalities to form the Southwest/West Central Service Cooperative to establish, procure, and administer group employee benefits. 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 \$410,000 per claim in 2008 and \$430,000 per claim in 2009. 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.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

---

5. Risk Management (Continued)

The Service Cooperative is a joint powers entity which sponsors a plan to provide group employee health benefits to its participating members. Cottonwood County became a participating member effective January 1, 2008. All members pool premiums and losses; however, a particular member may receive increases or decreases depending on a good or bad year of claims experience. Premiums are determined annually by the Service Cooperative and are based partially on the experience of the County and partially on the experience of the group. The Service Cooperative solicits proposals from carriers and negotiates the contracts.

6. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Cottonwood County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund (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 as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund.

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 defined 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.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

---

6. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

For all Public Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Public Employees Police and Fire Fund members and Public Employees Correctional Fund members, and either 65 or 66 (depending on date hired) for Public Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the 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.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

---

6. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans (Continued)

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. 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 were required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 8.6 percent of their annual covered salary in 2008. That rate increased to 9.4 percent in 2009. 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 2008 and 2009:

	2008	2009
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.50	6.75
Public Employees Police and Fire Fund	12.90	14.10
Public Employees Correctional Fund	8.75	8.75

The County's contributions for the years ending December 31, 2008, 2007, and 2006, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2008	\$ 229,309	\$ 64,628	\$ 31,845
2007	210,607	56,337	29,377
2006	194,313	36,320	29,632

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

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

---

---

6. Employee Retirement Systems and Pension Plans (Continued)

B. Defined Contribution Plan

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ending December 31, 2008, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 3,530	\$ 3,530
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

---

---

7. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

B. Joint Ventures

Cottonwood-Jackson Community Health Services Board

The Cottonwood-Jackson Community Health Services Board was established pursuant to Minn. Stat. ch. 145A and a joint powers agreement effective January 1, 1977.

The Cottonwood-Jackson Community Health Services Board is made up of the five elected County Commissioners from both Cottonwood and Jackson Counties. Both counties levy a tax to help support the Health Services Board. For 2008, Cottonwood County contributed \$122,300 to the Health Services Board.

Complete financial statements for the Cottonwood-Jackson Community Health Services Board can be obtained at 503 Fourth Street, Jackson, Minnesota 56143.

Southwestern Minnesota Adult Mental Health Consortium Board

In November 1997, the County entered into a joint powers agreement with several other governmental entities to create the Southwestern Minnesota Adult Mental Health Consortium Board under the authority of Minn. Stat. § 471.59. The Board is headquartered in Windom, Minnesota, where Cottonwood County acts as fiscal host.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

---

---

7. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

The Consortium Board shall take actions and enter into such agreements as may be necessary to plan and develop within the Consortium Board's geographic jurisdiction a system of care that will serve the needs of adults with serious and persistent mental illness. The governing board is composed of one Board member from each of the participating counties. Financing is provided by state proceeds or appropriations for the development of the system of care.

The following is a summary of the Consortium Board's annual financial report for the year ended December 31, 2007 (the latest information available):

Total assets	\$ 1,683,591
Total liabilities	323,335
Total net assets	1,360,256
Total revenues	3,359,694
Total expenses	2,947,615
Net increase in net assets	412,079

The Consortium Board reported no long-term obligations at December 31, 2007.

A complete financial report of the Southwestern Minnesota Adult Mental Health Consortium Board can be obtained at the Cottonwood County Family Services Agency, Windom, Minnesota 56101.

Red Rock Rural Water System

The Red Rock Rural Water System was established pursuant to Minn. Stat. ch. 116A, through a joint powers agreement pursuant to Minn. Stat. § 471.59, and under the jurisdiction of the Fifth Judicial District. The Counties of Brown, Cottonwood, Lyon, Murray, Redwood, and Watonwan have agreed to guarantee their share 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.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

---

---

7. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Red Rock Rural Water System (Continued)

The governing body is composed of nine members appointed to three-year terms by the District Court. Each county is responsible for levying and collecting the special assessments from the benefited properties within the county. The bond issue and notes payable are shown as long-term debt in the financial statements of the Red Rock Rural Water System. Outstanding bonds at December 31, 2007 (the latest information available), amounted to \$6,180,000; notes payable were \$6,840,123. The Water System's net assets increased by \$6,920,615 in 2007.

A complete financial report of the Red Rock Rural Water System can be obtained at P. O. Box 160, Jeffers, Minnesota 56145.

Rural Minnesota Energy Board

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

The governing body is composed of one voting member and one alternate member from each participating county's Board of Commissioners. The Board shall remain in existence as long as two or more counties remain parties to the agreement. Should the Board cease to exist, assets shall be liquidated, after payment of liabilities, based upon the ratios set out under the equal and proportionate share articles of the agreement. During 2008, Cottonwood County paid \$3,000 to the Board.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

---

7. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

South Central Minnesota Regional Radio Board

The South Central Minnesota Regional Radio Board was established pursuant to Minn. Stat. §§ 471.59 and 403.39 and a joint powers agreement effective May 27, 2008. The Board consists of one County Commissioner from each county included in the agreement, one City Council member from each city included in the agreement, a member of the South Central Minnesota Regional Advisory Committee, a member of the South Central Minnesota Regional Radio System User Committee, and a member of the Owners and Operators Committee. The primary function of the joint venture is to provide regional administration of enhancements to the Statewide Public Safety Radio and Communication System (AFMER) owned and operated by the State of Minnesota and enhance and improve interoperable public safety communications.

C. Jointly-Governed Organizations

Cottonwood County, in conjunction with other governmental entities and various private organizations, has formed the jointly-governed organizations listed below:

Family Service Collaborative

The Family Service Collaborative was established to create opportunities to enhance family strengths and support through service coordination and access to informal communication. Cottonwood County has no operational or financial control over the Collaborative.

Brown-Nicollet-Cottonwood Water Quality Joint Powers Board

The Brown-Nicollet-Cottonwood Water Quality Joint Powers Board helps implement, establish, and maintain a cooperative system of water quality implementation services. During the year, the County made no payments to the Joint Powers Board.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

---

---

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

D. Agriculture Best Management Loan Program

The County has entered into an agreement with the Minnesota Department of Agriculture and local lending institutions 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 repayment of the loans in any manner, it does have certain responsibilities under the agreement. The County has met those responsibilities for 2008.

**REQUIRED SUPPLEMENTARY INFORMATION**

This page was left blank intentionally.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**Schedule 1**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 2,752,649	\$ 2,736,784	\$ 2,825,170	\$ 88,386
Special assessments	197,000	197,000	385,805	188,805
Licenses and permits	10,100	10,100	9,673	(427)
Intergovernmental	1,581,363	1,489,917	1,628,390	138,473
Charges for services	314,800	314,800	334,708	19,908
Fines and forfeits	12,525	12,525	23,509	10,984
Gifts and contributions	-	-	9,000	9,000
Investment earnings	363,000	363,000	517,715	154,715
Miscellaneous	83,800	91,800	191,537	99,737
<b>Total Revenues</b>	<b>\$ 5,315,237</b>	<b>\$ 5,215,926</b>	<b>\$ 5,925,507</b>	<b>\$ 709,581</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 274,969	\$ 274,969	\$ 275,492	\$ (523)
Courts	11,100	11,100	23,221	(12,121)
Law library	7,525	7,525	8,595	(1,070)
Auditor/treasurer	507,007	547,007	557,225	(10,218)
Assessor	244,750	263,250	254,831	8,419
Elections	53,624	53,624	69,482	(15,858)
Attorney	292,418	292,418	294,470	(2,052)
Recorder	197,860	197,860	199,205	(1,345)
Buildings and plant	100,845	100,845	105,381	(4,536)
Veterans service officer	86,773	94,423	98,344	(3,921)
Transit	125,281	125,281	118,429	6,852
Other general government	257,536	281,337	290,888	(9,551)
<b>Total general government</b>	<b>\$ 2,159,688</b>	<b>\$ 2,249,639</b>	<b>\$ 2,295,563</b>	<b>\$ (45,924)</b>
<b>Public safety</b>				
Sheriff	\$ 896,120	\$ 910,014	\$ 940,968	\$ (30,954)
Emergency services	74,709	74,709	56,667	18,042
Coroner	11,200	19,200	19,433	(233)
Safety program	8,980	8,980	5,832	3,148
Jail	746,699	816,699	825,820	(9,121)
Probation and parole	122,448	122,448	82,215	40,233
Civil defense	-	-	3,043	(3,043)
<b>Total public safety</b>	<b>\$ 1,860,156</b>	<b>\$ 1,952,050</b>	<b>\$ 1,933,978</b>	<b>\$ 18,072</b>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Sanitation</b>				
Recycling	\$ 299,169	\$ 299,169	\$ 220,891	\$ 78,278
<b>Health</b>				
Community health	\$ 1,600	\$ 1,600	\$ 1,841	\$ (241)
<b>Culture and recreation</b>				
Parks	\$ 117,800	\$ 129,200	\$ 131,188	\$ (1,988)
Minnesota trails	-	-	44,984	(44,984)
Regional library	57,449	72,449	72,049	400
<b>Total culture and recreation</b>	<b>\$ 175,249</b>	<b>\$ 201,649</b>	<b>\$ 248,221</b>	<b>\$ (46,572)</b>
<b>Conservation of natural resources</b>				
Extension	\$ 133,504	\$ 133,504	\$ 126,997	\$ 6,507
Soil and water conservation	89,200	89,200	89,590	(390)
Water quality loan program	-	-	75,052	(75,052)
ISTS pilot project	17,500	2,500	-	2,500
Water planning	107,888	120,088	131,423	(11,335)
Environmental services	117,227	117,227	92,913	24,314
Other	-	-	2,500	(2,500)
<b>Total conservation of natural resources</b>	<b>\$ 465,319</b>	<b>\$ 462,519</b>	<b>\$ 518,475</b>	<b>\$ (55,956)</b>
<b>Intergovernmental</b>				
Health	\$ 126,200	\$ 126,200	\$ 122,300	\$ 3,900
<b>Debt service</b>				
Principal	\$ -	\$ -	\$ 189,955	\$ (189,955)
Interest	\$ -	\$ -	\$ 13,021	\$ (13,021)
<b>Total Expenditures</b>	<b>\$ 5,087,381</b>	<b>\$ 5,292,826</b>	<b>\$ 5,544,245</b>	<b>\$ (251,419)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 227,856</b>	<b>\$ (76,900)</b>	<b>\$ 381,262</b>	<b>\$ 458,162</b>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 26,000	\$ 60,000	\$ 12,500	\$ (47,500)
Transfers out	(25,000)	(60,000)	(283,252)	(223,252)
Loans issued	-	-	74,812	74,812
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 1,000</b>	<b>\$ -</b>	<b>\$ (195,940)</b>	<b>\$ (195,940)</b>
<b>Net Change in Fund Balance</b>	<b>\$ 228,856</b>	<b>\$ (76,900)</b>	<b>\$ 185,322</b>	<b>\$ 262,222</b>
<b>Fund Balance - January 1</b>	<b>6,153,812</b>	<b>6,153,812</b>	<b>6,153,812</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 6,382,668</b>	<b>\$ 6,076,912</b>	<b>\$ 6,339,134</b>	<b>\$ 262,222</b>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

*Schedule 2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 989,000	\$ 989,000	\$ 890,733	\$ (98,267)
Special assessments	-	-	38,865	38,865
Intergovernmental	4,073,523	2,299,523	2,521,947	222,424
Charges for services	40,000	40,000	48,783	8,783
Miscellaneous	68,500	97,500	8,160	(89,340)
<b>Total Revenues</b>	<b>\$ 5,171,023</b>	<b>\$ 3,426,023</b>	<b>\$ 3,508,488</b>	<b>\$ 82,465</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 484,121	\$ 484,121	\$ 227,332	\$ 256,789
Maintenance	1,183,960	1,183,960	1,035,148	148,812
Construction	2,358,971	1,407,671	1,392,893	14,778
Equipment and maintenance shops	1,304,188	980,088	973,268	6,820
<b>Total highways and streets</b>	<b>\$ 5,331,240</b>	<b>\$ 4,055,840</b>	<b>\$ 3,628,641</b>	<b>\$ 427,199</b>
<b>Intergovernmental</b>				
Highways and streets	-	-	253,033	(253,033)
<b>Total Expenditures</b>	<b>\$ 5,331,240</b>	<b>\$ 4,055,840</b>	<b>\$ 3,881,674</b>	<b>\$ 174,166</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (160,217)</b>	<b>\$ (629,817)</b>	<b>\$ (373,186)</b>	<b>\$ 256,631</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	2,500	2,500	4,111	1,611
<b>Net Change in Fund Balance</b>	<b>\$ (157,717)</b>	<b>\$ (627,317)</b>	<b>\$ (369,075)</b>	<b>\$ 258,242</b>
<b>Fund Balance - January 1</b>	<b>412,062</b>	<b>412,062</b>	<b>412,062</b>	<b>-</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>-</b>	<b>(37,983)</b>	<b>(37,983)</b>
<b>Fund Balance - December 31</b>	<b>\$ 254,345</b>	<b>\$ (215,255)</b>	<b>\$ 5,004</b>	<b>\$ 220,259</b>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

*Schedule 3*

**BUDGETARY COMPARISON SCHEDULE  
FAMILY SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 1,867,157	\$ 1,867,157	\$ 1,840,115	\$ (27,042)
Intergovernmental	2,284,917	2,284,917	2,008,770	(276,147)
Charges for services	45,000	45,000	44,866	(134)
Miscellaneous	443,960	443,960	378,425	(65,535)
<b>Total Revenues</b>	<b>\$ 4,641,034</b>	<b>\$ 4,641,034</b>	<b>\$ 4,272,176</b>	<b>\$ (368,858)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 1,140,882	\$ 1,140,882	\$ 1,062,133	\$ 78,749
Social services	3,608,080	3,608,080	3,264,966	343,114
<b>Total Expenditures</b>	<b>\$ 4,748,962</b>	<b>\$ 4,748,962</b>	<b>\$ 4,327,099</b>	<b>\$ 421,863</b>
<b>Net Change in Fund Balance</b>	<b>\$ (107,928)</b>	<b>\$ (107,928)</b>	<b>\$ (54,923)</b>	<b>\$ 53,005</b>
Fund Balance - January 1, as previously reported	\$ 1,003,171	\$ 1,003,171	\$ 1,003,171	\$ -
Prior period adjustment (Note 1.E.)	(62,287)	(62,287)	(62,287)	-
<b>Fund Balance - January 1, as restated</b>	<b>\$ 940,884</b>	<b>\$ 940,884</b>	<b>\$ 940,884</b>	<b>\$ -</b>
<b>Fund Balance - December 31</b>	<b>\$ 832,956</b>	<b>\$ 832,956</b>	<b>\$ 885,961</b>	<b>\$ 53,005</b>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

*Schedule 4*

**BUDGETARY COMPARISON SCHEDULE  
DITCH SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Special assessments	\$ 215,453	\$ 215,453	\$ 326,132	\$ 110,679
Miscellaneous	-	-	991	991
<b>Total Revenues</b>	<b>\$ 215,453</b>	<b>\$ 215,453</b>	<b>\$ 327,123</b>	<b>\$ 111,670</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Other	\$ 77,050	\$ 77,050	\$ 216,108	\$ (139,058)
<b>Debt service</b>				
Principal	170,000	170,000	170,000	-
Interest	61,081	61,081	61,081	-
Administrative (fiscal) charges	455	455	618	(163)
<b>Total Expenditures</b>	<b>\$ 308,586</b>	<b>\$ 308,586</b>	<b>\$ 447,807</b>	<b>\$ (139,221)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (93,133)</b>	<b>\$ (93,133)</b>	<b>\$ (120,684)</b>	<b>\$ (27,551)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	1,215	1,215
<b>Net Change in Fund Balance</b>	<b>\$ (93,133)</b>	<b>\$ (93,133)</b>	<b>\$ (119,469)</b>	<b>\$ (26,336)</b>
<b>Fund Balance - January 1</b>	<b>417,651</b>	<b>417,651</b>	<b>417,651</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 324,518</b>	<b>\$ 324,518</b>	<b>\$ 298,182</b>	<b>\$ (26,336)</b>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

*Schedule 5*

**BUDGETARY COMPARISON SCHEDULE  
BUILDING SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 45,441	\$ 45,441	\$ 45,089	\$ (352)
Intergovernmental	4,559	4,559	4,559	-
Miscellaneous	60,000	85,000	93,595	8,595
<b>Total Revenues</b>	<b>\$ 110,000</b>	<b>\$ 135,000</b>	<b>\$ 143,243</b>	<b>\$ 8,243</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Buildings and plant	92,000	237,500	257,613	(20,113)
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 18,000</b>	<b>\$ (102,500)</b>	<b>\$ (114,370)</b>	<b>\$ (11,870)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	174,000	174,000
<b>Net Change in Fund Balance</b>	<b>\$ 18,000</b>	<b>\$ (102,500)</b>	<b>\$ 59,630</b>	<b>\$ 162,130</b>
<b>Fund Balance - January 1</b>	<b>1,660</b>	<b>1,660</b>	<b>1,660</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 19,660</b>	<b>\$ (100,840)</b>	<b>\$ 61,290</b>	<b>\$ 162,130</b>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**Schedule 6**

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS  
DECEMBER 31, 2008**

---



---

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2008	\$0	\$393,153	\$393,153	0.0%	\$4,124,724	9.5%

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2008**

1. General Budget Policies

The Cottonwood County Board adopts estimated revenue and expenditure budgets for the General Fund and special revenue funds. The expenditure budget is approved at the fund level.

The budgets may be amended or modified at any time by the County Board. Comparisons of final budgeted revenues and expenditures to actual are presented in the required supplementary information for the General Fund and special revenue funds.

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 reappropriated and honored during the subsequent year.

2. Budget Basis of Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles.

3. Budget Amendments

The revenue and expenditure budgets in the General Fund, Road and Bridge Special Revenue Fund, and Building Special Revenue Fund were amended as follows:

Revenues	Original Budget	Increase (Decrease)	Final Budget
General Fund	\$ 5,315,237	\$ (99,311)	\$ 5,215,926
Road and Bridge Special Revenue Fund	5,171,023	(1,745,000)	3,426,023
Building Special Revenue Fund	110,000	25,000	135,000

Expenditures	Original Budget	Increase (Decrease)	Final Budget
General Fund	\$ 5,087,381	\$ 205,445	\$ 5,292,826
Road and Bridge Special Revenue Fund	5,331,240	(1,275,400)	4,055,840
Building Special Revenue Fund	92,000	145,500	237,500

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

---

4. Excess of Expenditures Over Appropriations

For the year ended December 31, 2008, expenditures exceeded appropriations (the legal level of budgetary control) in the General Fund by \$251,419, the Ditch Special Revenue Fund by \$139,221, and the Building Special Revenue Fund by \$20,113. The expenditures in excess of budget were funded by unbudgeted revenues and fund balance.

5. Other Postemployment Benefits Funding Status

Beginning in 2008, Cottonwood County implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Since the County has not irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets is zero. Currently, only one year's worth of data is available. Future reports will provide additional trend analysis to meet the three-year funding status requirement as it becomes available.

**SUPPLEMENTARY INFORMATION**

This page was left blank intentionally.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

*Statement 1*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Balance January 1, as Restated (Note 1.E.)</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	\$ <u>98,618</u>	\$ <u>389,864</u>	\$ <u>369,613</u>	\$ <u>118,869</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>98,618</u>	\$ <u>389,864</u>	\$ <u>369,613</u>	\$ <u>118,869</u>
 <b><u>MENTAL HEALTH CONSORTIUM</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>1,276,699</u>	\$ <u>9,066,010</u>	\$ <u>9,262,774</u>	\$ <u>1,079,935</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>1,276,699</u>	\$ <u>9,066,010</u>	\$ <u>9,262,774</u>	\$ <u>1,079,935</u>
 <b><u>MORTGAGE REGISTRY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>5,286</u>	\$ <u>96,417</u>	\$ <u>95,991</u>	\$ <u>5,712</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>5,286</u>	\$ <u>96,417</u>	\$ <u>95,991</u>	\$ <u>5,712</u>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**Statement 1**  
**(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<b>Balance January 1, as Restated (Note 1.E.)</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>STATE DEED TAX</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>25,504</u>	\$ <u>125,204</u>	\$ <u>127,730</u>	\$ <u>22,978</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>25,504</u>	\$ <u>125,204</u>	\$ <u>127,730</u>	\$ <u>22,978</u>
 <b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>88,066</u>	\$ <u>14,404,073</u>	\$ <u>14,379,705</u>	\$ <u>112,434</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>88,066</u>	\$ <u>14,404,073</u>	\$ <u>14,379,705</u>	\$ <u>112,434</u>
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>1,494,173</u>	\$ <u>24,081,568</u>	\$ <u>24,235,813</u>	\$ <u>1,339,928</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>1,494,173</u>	\$ <u>24,081,568</u>	\$ <u>24,235,813</u>	\$ <u>1,339,928</u>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

*Schedule 7*

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<b>Governmental Funds</b>	<b>Landfill Enterprise Fund</b>	<b>Total All Funds</b>
<b>Shared Revenue</b>			
<b>State</b>			
Highway users tax	\$ 1,783,558	\$ -	\$ 1,783,558
County program aid	691,413	-	691,413
PERA rate reimbursement	17,411	-	17,411
Disparity reduction aid	43,722	-	43,722
Police aid	56,328	-	56,328
Enhanced 911	85,216	-	85,216
Market value credit	559,835	9,117	568,952
<b>Total Shared Revenue</b>	<b>\$ 3,237,483</b>	<b>\$ 9,117</b>	<b>\$ 3,246,600</b>
<b>Reimbursement for Services</b>			
<b>State</b>			
Minnesota Department of Human Services	\$ 296,563	\$ -	\$ 296,563
<b>Payments</b>			
<b>Local</b>			
Payments in lieu of taxes	\$ 94,174	\$ -	\$ 94,174
<b>Grants</b>			
<b>State</b>			
Minnesota Department of			
Corrections	\$ 31,381	\$ -	\$ 31,381
Transportation	59,650	-	59,650
Human Services	747,785	-	747,785
Natural Resources	135,161	-	135,161
Veteran Affairs	7,000	-	7,000
Water and Soil Resources Board	73,702	-	73,702
Peace Officer Standards and Training Board	3,605	-	3,605
Pollution Control Agency	55,000	-	55,000
<b>Total State</b>	<b>\$ 1,113,284</b>	<b>\$ -</b>	<b>\$ 1,113,284</b>
<b>Federal</b>			
Department of			
Agriculture	\$ 80,321	\$ -	\$ 80,321
Justice	360	-	360
Transportation	594,712	-	594,712
Health and Human Services	724,347	-	724,347
Homeland Security	22,422	-	22,422
<b>Total Federal</b>	<b>\$ 1,422,162</b>	<b>\$ -</b>	<b>\$ 1,422,162</b>
<b>Total State and Federal Grants</b>	<b>\$ 2,535,446</b>	<b>\$ -</b>	<b>\$ 2,535,446</b>
<b>Total Intergovernmental Revenue</b>	<b>\$ 6,163,666</b>	<b>\$ 9,117</b>	<b>\$ 6,172,783</b>

This page was left blank intentionally.



This page was left blank intentionally.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

*Schedule 8*

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2008

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

- A. Our report expresses unqualified opinions on the basic financial statements of Cottonwood County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Cottonwood County and are reported in the "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*." One of the significant deficiencies is a material weakness.
- C. No instances of noncompliance material to the financial statements of Cottonwood County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Cottonwood County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Highway Planning and Construction	CFDA #20.205
Medical Assistance	CFDA #93.778
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Cottonwood County was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

99-1 Internal Accounting Controls

Due to the limited number of office personnel within the various County offices and departments, segregation of the accounting functions necessary to ensure adequate internal accounting control is not always possible. We noted that payroll clerks do not have sufficient segregation of duties.

One basic objective of internal control is to provide for segregation of incompatible duties. In other words, responsibilities should be separated among employees so that a single employee is not able to authorize a transaction, record the transaction in accounts, and be responsible for custody of the asset resulting from the transaction.

The County does not segregate the duties of the payroll function. The payroll clerks make changes or update the payroll master file, prepare the payroll, and generate the payroll reports and checks with little oversight or review.

We recommend that County management segregate these duties within the accounting functions as much as possible by limiting access to accounting programs commensurate with employees' duties and job responsibilities. If it is not possible to segregate these duties, County management should be aware of this lack of segregation of duties and implement oversight procedures to ensure the integrity and reliability of the financial information in the accounting system.

Client's Response:

*The County will evaluate the current payroll procedure and segregate or oversee the procedures from now on.*

00-3 Annual Adopted Budget and Budget Policy

The County Board adopts a summarized budget at the fund level. As a result, the detailed estimated revenue source by fund and the budgeted expenditure by fund, function, and department are not always clearly documented. In other words, the Board minutes do not contain complete fund budget information. In addition, the Board has not developed and adopted a budget policy for management's administration of the County budget.

We recommend the County Board adopt and record in its minutes fund budgets by major revenue source and estimated expenditures by function and department for each of the operational funds. After adoption, someone independent of the budget process should enter the original budget and budget amendments to the general ledger. In addition, we also recommend that the County Board develop and adopt budget policies and procedures to include the following elements:

- which funds require budgets,
- the legal level of budgetary control,
- when budgets can be modified by management and when budget modifications require Board approval,
- the budgetary basis on which the budget is adopted, and
- procedures for monitoring the budget.

Client's Response:

*All of these recommendations will be addressed in the new Accounting Policies and Procedures Handbook.*

06-2 Capital Assets Policies and Procedures

The County maintains its capital asset records using the ACS Capital Assets program. Capital asset additions and deletions are entered to this system, and depreciation is calculated by the system.

The County is carrying a significant amount of fully depreciated assets. Typically, a capital asset still in use should not be considered fully depreciated. Because depreciation is a method of allocating an asset's cost over its useful life, a periodic review of this useful life is necessary to reflect that allocation. Any change in useful life should be applied prospectively. As many factors affect the useful life of an asset, periodic reassessment of estimated useful lives may be appropriate.

We recommend that the County review and update its capital assets policy to include the periodic review of useful lives.

Client's Response:

*The County will review fully depreciated assets that are still being used to revise the original life or determine if improvements have been made and not listed in the capital assets program.*

06-3 Computer System Controls

Risk management begins with a risk assessment of the County's computer system to identify those risks that could negatively influence computer operations. Internal controls should be implemented to reduce the identified risks. Internal controls implemented should be documented in a well-maintained policies and procedures manual, which should be communicated to the County's staff. Staff adherence to these policies and procedures should be monitored.

Proper controls should be maintained over the computer system to allow for proper financial reporting. Although the County has made improvements, some weaknesses in internal controls still exist. The County does not maintain error logs, require strong passwords, or update its disaster recovery plan.

We recommend the County take steps to improve the control over its computer systems by reviewing and maintaining error logs, requiring passwords that are longer and include more randomized characters, and updating its disaster recovery plan to include backup personnel and procedures.

We recommend the County Board develop a plan to ensure that internal controls are in place to reduce the risk associated with the County's computer systems. Because computer systems are ever changing, the County should include in its plan periodic reassessment of risk to ensure existing internal controls are still effective.

Client's Response:

*The County will comply.*

06-5 Financial Reporting

Cottonwood County is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the County's management. Financial statement preparation in accordance with GAAP requires internal control over both: (1) recording, processing, and summarizing accounting data (maintaining internal books and records); and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

The County has upgraded its accounting system to accommodate the modified and full accrual bases of accounting in separate ledgers to allow for the preparation of annual financial statements in accordance with GAAP. However, certain accounting services were provided by the Office of the State Auditor in compiling complete financial statements.

We recommend the County continue its progress to internally prepare its annual financial statements in accordance with GAAP.

Client's Response:

*The County will continue to work in this area to meet the recommended goals.*

06-6 Audit Adjustments

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the financial statements on a timely basis. A control deficiency typically considered significant is the identification by the auditor of a material misstatement in the financial statements not initially identified by the County's internal controls. During our audit, we proposed the following adjustments that resulted in significant changes to the County's financial statements.

- an adjustment to record an interfund payable/receivable from the Road and Bridge Special Revenue Fund to the General Fund to cover a deficit cash balance of \$179,912 at December 31, 2008; and
- an adjustment of \$585,779 in the Ditch Special Revenue Fund to eliminate special assessments receivable and deferred revenue amounts that had been recorded twice.

The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements may not be fairly presented.

We recommend that the County modify internal controls over financial reporting to detect misstatements in the financial statements. We also encourage a thorough review of draft financial statements and supporting information to identify potential misstatements.

Client's Response:

*The County will comply.*

PREVIOUSLY REPORTED ITEM RESOLVED

**Accounting Policies and Procedures Manual (06-4)**

The County did not have a current and comprehensive accounting policies and procedures manual as part of the make up of its internal control system.

**Resolution**

The County has substantially completed an accounting policies and procedures manual which is available in the Auditor/Treasurer's Office.

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

None.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

08-1 Road and Bridge Special Revenue Fund Cash Balance Deficit

At December 31, 2008, the Road and Bridge Special Revenue Fund had a deficit cash balance of \$179,912. If cash balances in the funds are insufficient, Minn. Stat. §§ 385.31 and 385.32 provide that warrants are to be registered or funds borrowed from another fund with sufficient cash.

We recommend the County not make disbursements that cause a cash overdraft in a fund. We further recommend that, if appropriate, the County avail itself of one of the options provided by Minnesota statutes to avoid cash overdrafts.

Client's Response:

*The County will, if needed, make short-term loans from the General Fund to cover negative balances.*

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-6 County Ditch Fund Deficits

Nine of the 92 individual ditch systems had deficit fund balances as of December 31, 2008, totaling \$316,823, which is a decrease from the \$791,139 deficit reported in the prior year. The deficit indicates that assessments are not sufficient to cover bond principal and interest payments.

As provided by Minn. Stat. § 103E.735, subd. 1, a fund balance to be used for repairs may be established for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$40,000, whichever is larger.

**Schedule 8**  
***(Continued)***

We recommend the County eliminate the ditch fund balance deficits by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1, which permits the accumulation of a surplus balance to provide for the repair and maintenance costs of a ditch system and repay the General Fund for the loans advanced to the Ditch Special Revenue Fund.

**Client's Response:**

*The County is working on improving all ditch fund balances to eliminate negative balances.*



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  
Cottonwood County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Cottonwood County as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 10, 2009. 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 Cottonwood County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 99-1, 00-3, 06-2, 06-3, 06-5, and 06-6 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Cottonwood County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 06-3 to be a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cottonwood 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, Cottonwood County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 08-1.

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

Cottonwood County's written responses to the significant deficiencies, material weaknesses, legal compliance finding, and management practices finding identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

December 10, 2009

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

Board of County Commissioners  
Cottonwood County

#### Compliance

We have audited the compliance of Cottonwood County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. Cottonwood County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Cottonwood County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

### Internal Control Over Compliance

The management of Cottonwood County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the County's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Cottonwood County as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 10, 2009. Our audit was performed for the purpose of forming opinions on the County's basic financial statements.

The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

*/s/Rebecca Otto*

*/s/Greg Hierlinger*

REBECCA OTTO  
STATE AUDITOR

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

December 10, 2009

This page was left blank intentionally.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

Schedule 9

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	\$ <u>80,321</u>
<b>U.S. Department of Justice</b>		
Passed Through Minnesota Department of Public Safety Enforcing Underage Drinking Laws Program	16.727	\$ <u>360</u>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 566,620
Formula Grants for Other Than Urbanized Areas	20.509	37,840
Passed Through Minnesota Department of Public Safety Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	360
Interagency Hazardous Materials Public Sector Training and Planning Grant	20.703	<u>3,091</u>
<b>Total U.S. Department of Transportation</b>		<b>\$ <u>607,911</u></b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	\$ 7,711
Temporary Assistance for Needy Families (TANF)	93.558	81,902
Child Support Enforcement	93.563	198,254
Refugee and Entrant Assistance - State-Administered Programs	93.566	210
Child Care Cluster		
Child Care and Development Block Grant	93.575	4,946
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	1,407
Foster Care Title IV-E	93.658	57,446
Social Services Block Grant	93.667	119,747
Chafee Foster Care Independence Program	93.674	10,204
State Children's Insurance Program	93.767	195
Medical Assistance Program	93.778	235,274
Block Grants for Community Mental Health Services	93.958	<u>7,051</u>
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ <u>724,347</u></b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	\$ 1,336
Passed Through Minnesota Department of Public Safety Emergency Management Performance Grants	97.042	<u>21,086</u>
<b>Total U.S. Department of Homeland Security</b>		<b>\$ <u>22,422</u></b>
<b>Total Federal Awards</b>		<b>\$ <u>1,435,361</u></b>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

***Schedule 9  
(Continued)***

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Cottonwood County. The County's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting. Expenditures shown are different than reported revenues by \$13,199 because those revenues are not available.
3. During the year, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.