

# STATE OF MINNESOTA

## Office of the State Auditor



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

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

FOR THE YEAR ENDED DECEMBER 31, 2011

## **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.

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**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**For the Year Ended December 31, 2011**



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

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**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

ORGANIZATION  
2011

Office	Name	Term Expires
<b>Commissioners</b>		
1st District	Jim Schmidt	January 2015
2nd District	Ron Kuecker <sup>1</sup>	January 2013
3rd District	Tom White	January 2015
4th District	Norm Holmen <sup>2</sup>	January 2013
5th District	John Oeltjenbruns	January 2015
<b>Officials</b>		
<b>Elected</b>		
Attorney	Nicholas Anderson	January 2015
Auditor/Treasurer	Jan Johnson	January 2015
County Recorder	Kathleen Kretsch	January 2015
Sheriff	Jason Purrington	January 2015
<b>Appointed</b>		
Assessor	Gale Bondhus	December 31, 2012
Highway Engineer	Ronald Gregg	May 31, 2013
Veterans Service Officer	Todd Dibble	Indefinite
Environmental Officer	Andy Geiger	Indefinite
Emergency Services Director	Kim Hall	Indefinite
Family Service Director	Craig Myers	Indefinite

<sup>1</sup>Chair 2011

<sup>2</sup>Chair 2012

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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### INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
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, Minnesota, as of and for the year ended December 31, 2011, 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (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, 2011, 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.12. to the financial statements, for 2011, the County adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Cottonwood County's basic financial statements taken as a whole. The supplementary information, including the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2012, 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

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

May 25, 2012

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

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**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2011  
(Unaudited)**

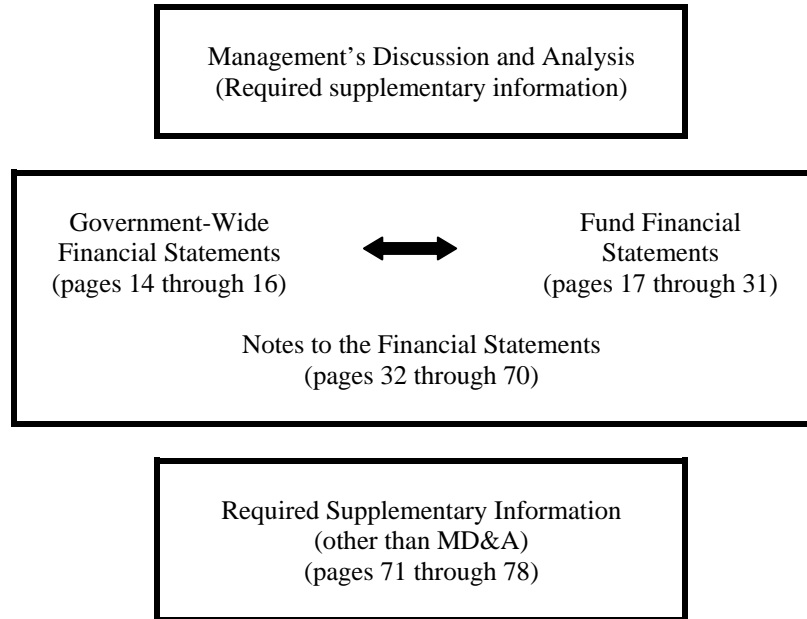
Cottonwood County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2011. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements (beginning on page 14).

**FINANCIAL HIGHLIGHTS**

- Governmental activities' total net assets are \$55,297,255, of which \$46,357,400 is invested in capital assets, net of related debt, leaving \$2,443,797 of the governmental activities' net assets restricted for specific uses and \$6,496,058 as unrestricted.
- Business-type activities have total net assets of \$1,570,385, of which \$422,820 is invested in capital assets, net of related debt, leaving \$456,898 of the business-type net assets restricted for specific uses and \$690,667 as unrestricted.
- Cottonwood County's net assets increased by \$2,612,860 for the year ended December 31, 2011. An increase of \$2,880,351 in the governmental activities' net assets is offset by a decrease of \$267,491 in business-type activities' net assets.
- The net cost of governmental activities was \$4,907,727 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$7,788,078.
- Governmental funds' fund balances decreased by \$761,649. This net decrease was due mainly to increased expenditures in the Road and Bridge and Ditch Special Revenue Funds.

**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 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, and conservation of natural resources. 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 30 and 31, respectively. 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 pages 71 through 78.

## THE COUNTY AS A WHOLE

The County's combined net assets are \$56,867,640. 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**

	2011			2010
	Governmental Activities	Business-Type Activities	Total	
<b>Assets</b>				
Current and other assets	\$ 13,595,477	\$ 2,480,213	\$ 16,075,690	\$ 16,426,920
Capital assets	<u>46,729,091</u>	<u>422,820</u>	<u>47,151,911</u>	<u>43,126,000</u>
Total Assets	<u>\$ 60,324,568</u>	<u>\$ 2,903,033</u>	<u>\$ 63,227,601</u>	<u>\$ 59,552,920</u>
<b>Liabilities</b>				
Long-term liabilities	\$ 2,933,339	\$ 1,249,105	\$ 4,182,444	\$ 4,211,832
Other liabilities	<u>2,093,974</u>	<u>83,543</u>	<u>2,177,517</u>	<u>1,086,308</u>
Total Liabilities	<u>\$ 5,027,313</u>	<u>\$ 1,332,648</u>	<u>\$ 6,359,961</u>	<u>\$ 5,298,140</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	\$ 46,357,400	\$ 422,820	\$ 46,780,220	\$ 43,124,476
Restricted	2,443,797	456,898	2,900,695	3,073,108
Unrestricted	<u>6,496,058</u>	<u>690,667</u>	<u>7,186,725</u>	<u>8,057,196</u>
Total Net Assets	<u>\$ 55,297,255</u>	<u>\$ 1,570,385</u>	<u>\$ 56,867,640</u>	<u>\$ 54,254,780</u>

Net assets of the County’s governmental activities were \$55,297,255. 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 \$6,496,058 at the end of the year. The net assets of business-type activities were \$1,570,385.

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

	2011			2010
	Governmental Activities	Business-Type Activities	Total	
<b>Revenues</b>				
Program revenues				
Fees, fines, and charges	\$ 1,609	\$ 505	\$ 2,114	\$ 1,848
Operating grants and contributions	5,728	-	5,728	5,941
Capital grants and contributions	1,696	-	1,696	36
General revenues				
Property taxes	6,337	-	6,337	6,288
Other taxes	417	-	417	5
Grants, gifts, and miscellaneous	1,080	-	1,080	1,512
<b>Total Revenues</b>	<b>\$ 16,867</b>	<b>\$ 505</b>	<b>\$ 17,372</b>	<b>\$ 15,630</b>
<b>Expenses</b>				
General government	\$ 2,178	\$ -	\$ 2,178	\$ 2,308
Public safety	2,086	-	2,086	2,082
Highways and streets	4,082	-	4,082	4,813
Sanitation	233	-	233	245
Human services	4,000	-	4,000	4,411
Health	173	-	173	145
Culture and recreation	186	-	186	206
Conservation of natural resources	916	-	916	546
Interest	86	-	86	66
Landfill	-	819	819	464
<b>Total Expenses</b>	<b>\$ 13,940</b>	<b>\$ 819</b>	<b>\$ 14,759</b>	<b>\$ 15,286</b>
Increase (Decrease) Before Transfers	\$ 2,927	\$ (314)	\$ 2,613	\$ 344
Transfers	(47)	47	-	-
Increase (Decrease) in Net Assets	\$ 2,880	\$ (267)	\$ 2,613	\$ 344
Net Assets - January 1	52,417	1,838	54,255	53,911
Net Assets - December 31	<u>\$ 55,297</u>	<u>\$ 1,571</u>	<u>\$ 56,868</u>	<u>\$ 54,255</u>

The County’s activities increased net assets by 4.82 percent (\$56,867,640 for 2011 compared to \$54,254,780 for 2010).

## TOTAL COUNTY REVENUE

### Governmental Activities

Revenues for the County's governmental activities (see Table 2) were \$16,867,605, while total expenses were \$13,940,447, and transfers out were \$46,807. This reflects a \$2,880,351 increase in net assets for the year ended December 31, 2011.

### Business-Type Activities

Revenues of the County's business-type activities (see Table 2) were \$505,056, transfers in were \$46,807, and expenses were \$819,354. This reflects a \$267,491 decrease in net assets for the year ending December 31, 2011.

### Governmental Activities' Expenses

The cost of the County's governmental activities this year was \$13,940,447. 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 \$4,907,727, because some of the cost was paid by those who directly benefited from the programs (\$1,608,566) or by other governments and organizations that subsidized certain programs with grants and contributions (\$7,424,154).

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)**

	2011	
	Total Cost of Services	Net Cost of Services
Highways and streets	\$ 4,082	\$ (1,176)
Human services	4,000	1,933
General government	2,178	1,720
Public safety	2,086	1,767
Conservation of natural resources	916	328
All others	678	335
Totals	<u>\$ 13,940</u>	<u>\$ 4,907</u>

## THE COUNTY'S FUNDS

As the County completed the year, its governmental funds (as presented in the Balance Sheet on pages 17 through 20) reported a combined fund balance of \$8,148,050, which is below last year's total of \$8,909,699. The governmental funds' change in fund balance (a decrease of \$761,649 for 2011) represents an 8.5 percent decrease in governmental fund balances. Most of the governmental funds' decrease is due to decreased assets in the Road and Bridge Special Revenue and Building Capital Projects Funds and increased Ditch Special Revenue Fund liabilities.

### 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.

With these adjustments, the actual charges to appropriations (expenditures) were \$66,964 above the final budget amounts. The major reason for variances of actual expenditures from final budget in this case is the unbudgeted expenditures of water quality loan program payments and sheriff and coroner related expenses.

On the other hand, resources available for appropriation were \$42,552 above the final budgeted amount. Increased state and federal reimbursements helped push revenues above expected levels.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2011, the County had \$47,151,911 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 \$4,025,911, or 9.33 percent, over last year.

**Table 4**  
**Changes in Capital Assets During 2011**

### Governmental Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 315,824	\$ -	\$ -	\$ 315,824
Right-of-way	795,883	-	-	795,883
Construction in progress	1,397	-	-	1,397
Total capital assets not depreciated	<u>\$ 1,113,104</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,113,104</u>

(Unaudited)

Page 10

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Buildings	\$ 4,687,679	\$ 146,192	\$ -	\$ 4,833,871
Machinery and equipment	5,132,883	1,002,015	74,270	6,060,628
Infrastructure	51,194,245	4,312,104	-	55,506,349
Total capital assets depreciated	<u>\$ 61,014,807</u>	<u>\$ 5,460,311</u>	<u>\$ 74,270</u>	<u>\$ 66,400,848</u>
Less: accumulated depreciation for				
Buildings	\$ 2,153,038	\$ 115,572	\$ -	\$ 2,268,610
Machinery and equipment	3,738,502	361,987	73,337	4,027,152
Infrastructure	13,407,334	1,082,231	466	14,489,099
Total accumulated depreciation	<u>\$ 19,298,874</u>	<u>\$ 1,559,790</u>	<u>\$ 73,803</u>	<u>\$ 20,784,861</u>
Total capital assets depreciated, net	<u>\$ 41,715,933</u>	<u>\$ 3,900,521</u>	<u>\$ 467</u>	<u>\$ 45,615,987</u>
Governmental Activities Capital Assets, Net	<u>\$ 42,829,037</u>	<u>\$ 3,900,521</u>	<u>\$ 467</u>	<u>\$ 46,729,091</u>

### 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	460,330	268,993	270,248	459,075
Total capital assets depreciated	<u>\$ 484,030</u>	<u>\$ 268,993</u>	<u>\$ 270,248</u>	<u>\$ 482,775</u>
Less: accumulated depreciation for				
Buildings	\$ 20,606	\$ 790	\$ -	\$ 21,396
Machinery and equipment	330,343	41,003	168,905	202,441
Total accumulated depreciation	<u>\$ 350,949</u>	<u>\$ 41,793</u>	<u>\$ 168,905</u>	<u>\$ 223,837</u>
Total capital assets depreciated, net	<u>\$ 133,081</u>	<u>\$ 227,200</u>	<u>\$ 101,343</u>	<u>\$ 258,938</u>
Business-Type Activities Capital Assets, Net	<u>\$ 296,963</u>	<u>\$ 227,200</u>	<u>\$ 101,343</u>	<u>\$ 422,820</u>

The County's fiscal year 2011 capital budget called for it to spend \$4,085,000 on highway and bridge construction and \$185,000 on road and bridge equipment purchases, all to be financed with resources on hand in existing County funds.



## Debt

At the end of the current fiscal year, the County had total outstanding debt of \$4,182,444, versus \$4,211,832 last year--a decrease of 0.7 percent--as shown in Table 5.

**Table 5**  
**Changes in Outstanding Debt During 2011**

### 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)					
G.O. Drainage Crossover Refund Bond 2005 (Ditch)	\$ 1,395,000	\$ -	\$ 1,395,000	\$ -	\$ -
G.O. Drainage Crossover Refund Bond 2011 (Ditch)	-	1,090,000	-	1,090,000	-
Less: unamortized discount	(17,390)	-	(17,390)	-	-
Add: unamortized premium	-	21,228	178	21,050	-
<b>Total bonds payable</b>	<b>\$ 1,377,610</b>	<b>\$ 1,111,228</b>	<b>\$ 1,377,788</b>	<b>\$ 1,111,050</b>	<b>\$ -</b>
Loans payable	995,064	92,676	134,152	953,588	145,210
Capital lease	1,524	156,285	29,696	128,113	24,012
Compensated absences	704,267	36,321	-	740,588	32,067
<b>Governmental Activities Long-Term Liabilities</b>	<b>\$ 3,078,465</b>	<b>\$ 1,396,510</b>	<b>\$ 1,541,636</b>	<b>\$ 2,933,339</b>	<b>\$ 201,289</b>

### Business-Type Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Estimated liability for landfill closure and postclosure care	\$ 1,114,714	\$ 133,601	\$ -	\$ 1,248,315	\$ -
Compensated absences	18,653	-	17,863	790	-
<b>Business-Type Activities Long-Term Liabilities</b>	<b>\$ 1,133,367</b>	<b>\$ 133,601</b>	<b>\$ 17,863</b>	<b>\$ 1,249,105</b>	<b>\$ -</b>

The County's general obligation bond rating is an AA-. 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 (\$1,990,178,700) in the County. The County's outstanding net debt (\$4,182,444) is significantly below this state-imposed limit (\$59,705,361).

## **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 2012 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 2012 are budgeted to increase 2.07 percent from 2011.
- Property taxes levied have increased 4.00 percent for 2012.

## **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**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

*EXHIBIT 1*

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2011**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 9,622,669	\$ 741,432	\$ 10,364,101
Receivable - net	3,604,052	34,490	3,638,542
Internal balances	922	(922)	-
Inventories	242,619	-	242,619
Restricted assets			
Cash and pooled investments	-	1,705,213	1,705,213
Net OPEB asset	67,018	-	67,018
Deferred charges	58,197	-	58,197
Capital assets			
Non-depreciable capital assets	1,113,104	163,882	1,276,986
Depreciable capital assets - net of accumulated depreciation	45,615,987	258,938	45,874,925
<b>Total Assets</b>	<b>\$ 60,324,568</b>	<b>\$ 2,903,033</b>	<b>\$ 63,227,601</b>
<b><u>Liabilities</u></b>			
Accounts payable and other current liabilities	\$ 744,446	\$ 83,543	\$ 827,989
Matured bonds payable	1,240,000	-	1,240,000
Matured interest payable	22,789	-	22,789
Accrued interest payable	21,234	-	21,234
Unearned revenue	65,505	-	65,505
Long-term liabilities			
Due within one year	201,289	-	201,289
Due in more than one year	2,732,050	1,249,105	3,981,155
<b>Total Liabilities</b>	<b>\$ 5,027,313</b>	<b>\$ 1,332,648</b>	<b>\$ 6,359,961</b>
<b><u>Net Assets</u></b>			
Invested in capital assets - net of related debt	\$ 46,357,400	\$ 422,820	\$ 46,780,220
Restricted for			
Public safety	58,941	-	58,941
Highways and streets	1,315,000	-	1,315,000
Conservation of natural resources	748,830	-	748,830
Economic development	50,886	-	50,886
Postclosure care	-	456,898	456,898
Other purposes	270,140	-	270,140
Unrestricted	6,496,058	690,667	7,186,725
<b>Total Net Assets</b>	<b>\$ 55,297,255</b>	<b>\$ 1,570,385</b>	<b>\$ 56,867,640</b>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>
<b>Governmental activities</b>		
General government	\$ 2,177,916	\$ 290,909
Public safety	2,086,206	72,794
Highways and streets	4,082,068	150,782
Sanitation	232,786	206,341
Human services	3,999,623	398,798
Health	172,774	-
Culture and recreation	186,549	56,875
Conservation of natural resources	916,476	432,067
Interest	86,049	-
<b>Total governmental activities</b>	<b>\$ 13,940,447</b>	<b>\$ 1,608,566</b>
<b>Business-type activities</b>		
Landfill	819,354	505,056
<b>Total</b>	<b>\$ 14,759,801</b>	<b>\$ 2,113,622</b>

**General Revenues**

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

**Transfers**

**Total general revenues and transfers**

**Change in net assets**

**Net Assets - January 1**

**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>
\$ 166,994	\$ -	\$ (1,720,013)	\$ -	\$ (1,720,013)
246,552	-	(1,766,860)	-	(1,766,860)
3,410,914	1,696,103	1,175,731	-	1,175,731
55,950	-	29,505	-	29,505
1,667,656	-	(1,933,169)	-	(1,933,169)
-	-	(172,774)	-	(172,774)
23,316	-	(106,358)	-	(106,358)
156,669	-	(327,740)	-	(327,740)
-	-	(86,049)	-	(86,049)
<b>\$ 5,728,051</b>	<b>\$ 1,696,103</b>	<b>\$ (4,907,727)</b>	<b>\$ -</b>	<b>\$ (4,907,727)</b>
-	-	-	(314,298)	(314,298)
<b>\$ 5,728,051</b>	<b>\$ 1,696,103</b>	<b>\$ (4,907,727)</b>	<b>\$ (314,298)</b>	<b>\$ (5,222,025)</b>
		\$ 6,336,799	\$ -	\$ 6,336,799
		40,201	-	40,201
		5,029	-	5,029
		177,258	-	177,258
		720,848	-	720,848
		195,420	-	195,420
		162,767	-	162,767
		196,563	-	196,563
		(46,807)	46,807	-
		<b>\$ 7,788,078</b>	<b>\$ 46,807</b>	<b>\$ 7,834,885</b>
		<b>\$ 2,880,351</b>	<b>\$ (267,491)</b>	<b>\$ 2,612,860</b>
		<b>52,416,904</b>	<b>1,837,876</b>	<b>54,254,780</b>
		<b>\$ 55,297,255</b>	<b>\$ 1,570,385</b>	<b>\$ 56,867,640</b>

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**FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2011**

	<b>General</b>	<b>Road and Bridge</b>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 6,685,964	\$ 21,162
Petty cash and change funds	3,250	-
Undistributed cash in agency funds	28,425	7,099
Taxes receivable		
Prior	42,070	12,069
Special assessments		
Prior	21,522	233
Noncurrent	573,956	-
Accounts receivable	40,714	-
Accrued interest receivable	36,047	-
Due from other funds	1,013	5,786
Due from other governments	81,990	1,394,396
Inventories	-	242,619
Advances to other funds	801,426	-
	<b>\$ 8,316,377</b>	<b>\$ 1,683,364</b>
<b>Total Assets</b>	<b>\$ 8,316,377</b>	<b>\$ 1,683,364</b>

**EXHIBIT 3**

<u>Family Services</u>	<u>Ditch</u>	<u>Building</u>	<u>Total Governmental Funds</u>
\$ 1,189,745	\$ 1,601,477	\$ 69,466	\$ 9,567,814
-	-	-	3,250
14,722	1,011	348	51,605
25,104	-	604	79,847
-	46	-	21,801
-	1,192,442	-	1,766,398
5,375	-	-	46,089
-	-	-	36,047
19	-	-	6,818
177,484	-	-	1,653,870
-	-	-	242,619
-	-	-	801,426
<b>\$ 1,412,449</b>	<b>\$ 2,794,976</b>	<b>\$ 70,418</b>	<b>\$ 14,277,584</b>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2011**

	<b>General</b>	<b>Road and Bridge</b>
<b><u>Liabilities and Fund Balances</u></b>		
<b>Liabilities</b>		
Accounts payable	\$ 93,265	\$ 14,261
Salaries payable	111,107	39,741
Contracts payable	-	243,578
Due to other funds	4,703	-
Due to other governments	22,206	4,700
Matured bonds payable	-	-
Matured interest payable	-	-
Deferred revenue - unavailable	653,205	1,377,764
Deferred revenue - unearned	65,505	-
Advances from other funds	-	600,000
	<b>\$ 949,991</b>	<b>\$ 2,280,044</b>
 <b>Fund Balances</b>		
Nonspendable		
Inventories	\$ -	\$ 242,619
Advances to other funds	801,426	-
Restricted for		
Law library	16,520	-
Recorder's technology fund	28,924	-
Enhanced 911	58,941	-
Permit to carry	16,843	-
Recorder's compliance fund	95,518	-
Election equipment	74,056	-
Low-interest small business loans	50,886	-
Transportation	55,122	-
Septic/sewer loans	545,983	-
Ditch maintenance and repairs	-	-
Assigned to		
Capital improvements	338,162	-
Canteen fund	20,819	-
Human services	-	-
Building projects	-	-
Unassigned	5,263,186	(839,299)
	<b>\$ 7,366,386</b>	<b>\$ (596,680)</b>
<b>Total Fund Balances</b>	<b>\$ 7,366,386</b>	<b>\$ (596,680)</b>
 <b>Total Liabilities and Fund Balances</b>	<b>\$ 8,316,377</b>	<b>\$ 1,683,364</b>



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

<u>Family Services</u>	<u>Ditch</u>	<u>Building</u>	<u>Total Governmental Funds</u>
\$ 132,624	\$ 197	\$ -	\$ 240,347
74,978	-	-	225,826
-	-	-	243,578
1,013	180	-	5,896
7,789	-	-	34,695
-	1,240,000	-	1,240,000
-	23,096	-	23,096
25,104	1,192,488	604	3,249,165
-	-	-	65,505
-	201,426	-	801,426
<u>\$ 241,508</u>	<u>\$ 2,657,387</u>	<u>\$ 604</u>	<u>\$ 6,129,534</u>
\$ -	\$ -	\$ -	\$ 242,619
-	-	-	801,426
-	-	-	16,520
-	-	-	28,924
-	-	-	58,941
-	-	-	16,843
-	-	-	95,518
-	-	-	74,056
-	-	-	50,886
-	-	-	55,122
-	-	-	545,983
-	576,666	-	576,666
-	-	-	338,162
-	-	-	20,819
1,170,941	-	-	1,170,941
-	-	69,814	69,814
-	(439,077)	-	3,984,810
<u>\$ 1,170,941</u>	<u>\$ 137,589</u>	<u>\$ 69,814</u>	<u>\$ 8,148,050</u>
<u>\$ 1,412,449</u>	<u>\$ 2,794,976</u>	<u>\$ 70,418</u>	<u>\$ 14,277,584</u>

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**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

***EXHIBIT 4***

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2011**

<b>Fund balances - total governmental funds (Exhibit 3)</b>		<b>\$</b>	<b>8,148,050</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.			46,729,091
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			3,249,165
Net OPEB assets			67,018
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	\$	(1,090,000)	
Capital leases		(128,113)	
Loans payable		(953,588)	
Compensated absences		(740,588)	
Accrued interest payable		(20,927)	
Unamortized premium on general obligation refunding bonds		(21,050)	
Deferred debt issuance charges		30,884	
Deferred amount on refunding bonds		27,313	
		(2,896,069)	
<b>Net Assets of Governmental Activities (Exhibit 1)</b>		<b>\$</b>	<b><u>55,297,255</u></b>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<b>General</b>	<b>Road and Bridge</b>
<b>Revenues</b>		
Taxes	\$ 3,623,951	\$ 953,311
Special assessments	327,011	17
Licenses and permits	9,235	-
Intergovernmental	1,278,179	5,481,613
Charges for services	330,221	59,783
Fines and forfeits	7,371	-
Gifts and contributions	100	-
Investment earnings	162,222	-
Miscellaneous	236,305	90,999
	<b>\$ 5,974,595</b>	<b>\$ 6,585,723</b>
<b>Expenditures</b>		
<b>Current</b>		
General government	\$ 2,150,759	\$ -
Public safety	2,605,771	-
Highways and streets	-	7,089,206
Sanitation	227,089	-
Human services	-	-
Health	12,905	-
Culture and recreation	163,281	-
Conservation of natural resources	507,580	-
<b>Intergovernmental</b>	159,869	321,353
<b>Debt service</b>		
Principal	135,676	28,172
Interest	10,756	-
Bond issuance costs	-	-
Administrative (fiscal) charges	-	-
	<b>\$ 5,973,686</b>	<b>\$ 7,438,731</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 909</b>	<b>\$ (853,008)</b>
<b>Other Financing Sources (Uses)</b>		
Transfers in	\$ 12,500	\$ 330,000
Transfers out	(389,823)	-
Capital lease purchase	-	156,285
Loans issued	92,676	-
Refunding bonds issued	-	-
Premium on bonds issued	-	-
	<b>\$ (284,647)</b>	<b>\$ 486,285</b>
<b>Net Change in Fund Balances</b>	<b>\$ (283,738)</b>	<b>\$ (366,723)</b>
<b>Fund Balances - January 1</b>	<b>7,650,124</b>	<b>(316,225)</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>86,268</b>
	<b>\$ 7,366,386</b>	<b>\$ (596,680)</b>
<b>Fund Balances - December 31</b>	<b>\$ 7,366,386</b>	<b>\$ (596,680)</b>

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

**EXHIBIT 5**

<b>Family Services</b>	<b>Ditch</b>	<b>Building</b>	<b>Total Governmental Funds</b>
\$ 1,935,062	\$ -	\$ 45,878	\$ 6,558,202
-	520,797	-	847,825
-	-	-	9,235
1,795,957	-	2,931	8,558,680
46,333	-	-	436,337
-	-	-	7,371
-	-	-	100
-	-	-	162,222
352,465	5,388	66,120	751,277
<b>\$ 4,129,817</b>	<b>\$ 526,185</b>	<b>\$ 114,929</b>	<b>\$ 17,331,249</b>
\$ -	\$ -	\$ 207,276	\$ 2,358,035
-	-	-	2,605,771
-	-	-	7,089,206
-	-	-	227,089
3,970,780	-	-	3,970,780
-	-	-	12,905
-	-	-	163,281
-	404,814	-	912,394
-	-	-	481,222
-	1,395,000	-	1,558,848
-	70,691	-	81,447
-	31,145	-	31,145
-	425	-	425
<b>\$ 3,970,780</b>	<b>\$ 1,902,075</b>	<b>\$ 207,276</b>	<b>\$ 19,492,548</b>
<b>\$ 159,037</b>	<b>\$ (1,375,890)</b>	<b>\$ (92,347)</b>	<b>\$ (2,161,299)</b>
\$ -	\$ 516	\$ -	\$ 343,016
-	-	-	(389,823)
-	-	-	156,285
-	-	-	92,676
-	1,090,000	-	1,090,000
-	21,228	-	21,228
<b>\$ -</b>	<b>\$ 1,111,744</b>	<b>\$ -</b>	<b>\$ 1,313,382</b>
<b>\$ 159,037</b>	<b>\$ (264,146)</b>	<b>\$ (92,347)</b>	<b>\$ (847,917)</b>
<b>1,011,904</b>	<b>401,735</b>	<b>162,161</b>	<b>8,909,699</b>
<b>-</b>	<b>-</b>	<b>-</b>	<b>86,268</b>
<b>\$ 1,170,941</b>	<b>\$ 137,589</b>	<b>\$ 69,814</b>	<b>\$ 8,148,050</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, 2011**

**Net change in fund balances - total governmental funds (Exhibit 5) \$ (847,917)**

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 revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.

Deferred revenue - December 31	\$ 3,249,165	
Deferred revenue - January 1	<u>(3,712,809)</u>	(463,644)

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

Capital outlay expenditures	\$ 5,460,311	
Net book value of assets sold	(933)	
Current year depreciation	<u>(1,559,324)</u>	3,900,054

The issuing 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 transactions, 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.

Proceeds of new debt		
Capital lease issued	\$ (156,285)	
Loans issued	(92,676)	
General obligation refunding bonds	(1,090,000)	
Premium on bonds	(21,228)	
New debt bond issuance costs	<u>31,145</u>	(1,329,044)

Principal payments		
General obligation bonds	\$ 1,395,000	
Capital lease	29,696	
Loans payable	<u>134,152</u>	1,558,848

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

***EXHIBIT 6***  
***(Continued)***

**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, 2011**

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	\$ 459	
Amortization of discounts/premiums and deferred issuance charges	(4,636)	
Change in compensated absences payable	(36,321)	
Change in net OPEB obligation	16,284	
Change in inventories	<u>86,268</u>	<u>62,054</u>
<b>Change in Net Assets of Governmental Activities (Exhibit 2)</b>		<b><u><u>\$ 2,880,351</u></u></b>

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**PROPRIETARY FUND**

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**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

*EXHIBIT 7*

**STATEMENT OF FUND NET ASSETS  
PROPRIETARY FUND  
DECEMBER 31, 2011**

	<u>Landfill Enterprise Fund</u>
<b><u>Assets</u></b>	
Current assets	
Cash and pooled investments	\$ 741,432
Accounts receivable - net	34,490
Restricted assets	
Cash and pooled investments	1,705,213
<b>Total current assets</b>	<b>\$ 2,481,135</b>
Noncurrent assets	
Capital assets	
Nondepreciable	\$ 163,882
Depreciable - net	258,938
<b>Total noncurrent assets</b>	<b>\$ 422,820</b>
<b>Total Assets</b>	<b>\$ 2,903,955</b>
<b><u>Liabilities</u></b>	
Current liabilities	
Accounts payable	\$ 9,825
Salaries payable	3,022
Contracts payable	70,696
Due to other funds	922
<b>Total current liabilities</b>	<b>\$ 84,465</b>
Noncurrent liabilities	
Compensated absences payable - long-term	\$ 790
Estimated liability for landfill closure/postclosure	1,248,315
<b>Total noncurrent liabilities</b>	<b>\$ 1,249,105</b>
<b>Total Liabilities</b>	<b>\$ 1,333,570</b>
<b><u>Net Assets</u></b>	
Invested in capital assets	\$ 422,820
Restricted for postclosure care	456,898
Unrestricted	690,667
<b>Total Net Assets</b>	<b>\$ 1,570,385</b>

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

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**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

*EXHIBIT 8*

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<b>Landfill Enterprise Fund</b>
<b>Operating Revenues</b>	
Charges for services	\$ 488,074
Licenses and permits	13
Miscellaneous	16,969
<b>Total Operating Revenues</b>	<b>\$ 505,056</b>
<b>Operating Expenses</b>	
Personal services	\$ 120,363
Professional services	15,454
Other services and charges	498,465
Utilities	9,678
Depreciation	41,793
Landfill closure and postclosure costs	133,601
<b>Total Operating Expenses</b>	<b>\$ 819,354</b>
<b>Operating Income (Loss)</b>	<b>\$ (314,298)</b>
Transfers in	\$ 59,307
Transfers out	(12,500)
<b>Change in Net Assets</b>	<b>\$ (267,491)</b>
<b>Net Assets - January 1</b>	<b>1,837,876</b>
<b>Net Assets - December 31</b>	<b>\$ 1,570,385</b>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

*EXHIBIT 9*

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011  
Increase (Decrease) in Cash and Cash Equivalents**

	<u><b>Landfill Enterprise Fund</b></u>
<b>Cash Flows from Operating Activities</b>	
Receipts from customers and users	\$ 520,069
Payments to suppliers	(494,465)
Payments to employees	(139,459)
	<hr/>
<b>Net cash provided by (used in) operating activities</b>	<b><u>\$ (113,855)</u></b>
<b>Cash Flows from Noncapital Financing Activities</b>	
Transfers in	\$ 59,307
Transfers out	(12,500)
	<hr/>
<b>Net cash provided by (used in) noncapital financing activities</b>	<b><u>\$ 46,807</u></b>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Property taxes	\$ 708
Purchase of capital assets	(167,650)
	<hr/>
<b>Net cash provided by (used in) capital and related financing activities</b>	<b><u>\$ (166,942)</u></b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b><u>\$ (233,990)</u></b>
<b>Cash and Cash Equivalents - January 1</b>	<b><u>2,680,635</u></b>
<b>Cash and Cash Equivalents - December 31</b>	<b><u><u>\$ 2,446,645</u></u></b>
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets - Exhibit 7</b>	
Cash and pooled investments	\$ 741,432
Restricted cash and pooled investments	1,705,213
	<hr/>
<b>Total Cash and Cash Equivalents - December 31</b>	<b><u><u>\$ 2,446,645</u></u></b>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**EXHIBIT 9  
(Continued)**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011  
Increase (Decrease) in Cash and Cash Equivalents**

	<u><b>Landfill Enterprise Fund</b></u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>	
Operating income (loss)	<u>\$ (314,298)</u>
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</b>	
Depreciation expense	\$ 41,793
Landfill closure and postclosure costs	133,601
(Increase) decrease in accounts receivable	15,376
(Increase) decrease in due from other governments	(413)
(Increase) decrease in due from other funds	50
Increase (decrease) in accounts payable	(3,512)
Increase (decrease) in salaries payable	(1,233)
Increase (decrease) in contracts payable	32,397
Increase (decrease) in due to other funds	247
Increase (decrease) in compensated absences payable	<u>(17,863)</u>
<b>Total adjustments</b>	<u><b>\$ 200,443</b></u>
 <b>Net Cash Provided by (Used in) Operating Activities</b>	 <u><b>\$ (113,855)</b></u>
<b>Noncash Investing, Capital, and Financing Activities</b>	
Net book value of assets traded in	<u><b>\$ 101,343</b></u>

**FIDUCIARY FUNDS**

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**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

*EXHIBIT 10*

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2011**

	<u>Investment Trust</u>	<u>Agency</u>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 164,464	\$ <u>1,571,422</u>
<b><u>Liabilities</u></b>		
Due to other governments	-	\$ <u>1,571,422</u>
<b><u>Net Assets</u></b>		
Net assets, held in trust for pool participant	\$ <u>164,464</u>	

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

*EXHIBIT 11*

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<b>Investment Trust</b>
<b><u>Additions</u></b>	
Contributions from participants	\$ 126,489
Investment income	245
Miscellaneous revenue	3,718
	130,452
<b>Total Additions</b>	<b>\$ 130,452</b>
<b><u>Deductions</u></b>	
Distributions to participants	137,907
	(7,455)
<b>Change in Net Assets</b>	<b>\$ (7,455)</b>
<b>Net Assets - January 1</b>	<b>171,919</b>
<b>Net Assets - December 31</b>	<b>\$ 164,464</b>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011

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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, 2011. 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**

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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**

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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 accounts for restricted revenues from the federal and state government, as well as assigned property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

The Family Services Special Revenue Fund is used to account for restricted revenue sources from the federal, state, and other oversight agencies, as well as assigned property tax revenues from the County to be used 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 Capital Projects Fund is used to account for assigned property tax revenues and rental income to pay the cost of constructing and maintaining County buildings.

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.

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.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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**

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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, 2011, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments of governmental funds are credited to the General Fund. Pooled investment earnings for 2011 were \$162,222.

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 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."

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

Advances between funds, as reported in the fund financial statements, are offset by a fund balance nonspendable 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

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 at the government-wide level are recorded as expenses when consumed.

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.



**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

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.

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

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

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.

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.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

11. Classification of Net Assets

Net assets in the government-wide and proprietary fund financial statements are classified in the following categories:

Invested in capital assets, net of related debt - the amounts of net assets representing capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

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

Unrestricted net assets - the amount of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

12. Classification of Fund Balances

Beginning in 2011, Cottonwood County implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and to clarify existing governmental fund type definitions. Also, as part of implementation of GASB Statement No.54, the Building Fund was reclassified from a Special Revenue Fund to a Capital Projects Fund.

The County's fund balance policy establishes a minimum unassigned fund balance equal to 35 percent of total General Fund expenditures. In the event the unassigned fund balance drops below the established minimum level, the County Board will develop a plan to replenish the fund balance to the established level within two years.

The County's fund balance policy also includes the authority to establish a financial stabilization account that will be a committed fund balance. The County has not established such an account at this time.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

12. Classification of Fund Balances (Continued)

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

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

Restricted - fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

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

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

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

12. Classification of Fund Balances (Continued)

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

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

13. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

A. 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, 7 of 86 drainage systems have deficit fund balances at December 31, 2011.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity (Continued)

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	\$	810,417
Account balance deficits		(429,306)
Total		\$ 381,111

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 \$137,589 when reported on the modified accrual basis.

B. Deficit Fund Balance

The Road and Bridge Special Revenue Fund has a deficit fund balance of \$596,680 at December 31, 2011. The General Fund has advanced cash of \$600,000 to the Road and Bridge Special Revenue Fund as of December 31, 2011. The County intends to address this deficit with increased levy dollars and a possible fund transfer in 2012.

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	\$	9,622,669
Business-type activities		
Cash and pooled investments		741,432
Cash and pooled investments - restricted assets		1,705,213
Statement of fiduciary net assets		
Cash and pooled investments		
Investment trust fund		164,464
Agency funds		1,571,422
Total Cash and Investments	\$	13,805,200

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. 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, 2011, the County's deposits were exposed to custodial credit risk in the amount of \$71,458 as unsecured.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) 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**

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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 obtain investments for the County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. At December 31, 2011, none of the County's investments were subject to custodial credit risk.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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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, 2011, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Negotiable certificates of deposit	N/A	N/A	N/A	Various	\$ 6,418,287
Checking					5,862,663
Savings					525,000
Certificates of deposit					996,000
Petty cash					3,250
Total Cash and Investments					<u>\$ 13,805,200</u>

N/A - Not Applicable

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2011, 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	\$ 79,847	\$ -
Special assessments - prior	21,801	-
Special assessments - noncurrent	1,766,398	1,471,963
Accounts	46,089	-
Interest	36,047	-
Due from other governments	1,653,870	-
Total Governmental Activities	\$ 3,604,052	\$ 1,471,963
Business-Type Activities		
Accounts	\$ 34,077	\$ -
Due from other governments	413	-
Total Business-Type Activities	\$ 34,490	\$ -

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, 2011, there were no loans outstanding.

Loan payments may be reloaned to other businesses. At December 31, 2011, the County has \$50,886 restricted 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, 2011, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 315,824	\$ -	\$ -	\$ 315,824
Right-of-way	795,883	-	-	795,883
Construction in progress	1,397	-	-	1,397
Total capital assets not depreciated	<u>\$ 1,113,104</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,113,104</u>
Capital assets depreciated				
Buildings	\$ 4,687,679	\$ 146,192	\$ -	\$ 4,833,871
Machinery and equipment	5,132,883	1,002,015	74,270	6,060,628
Infrastructure	51,194,245	4,312,104	-	55,506,349
Total capital assets depreciated	<u>\$ 61,014,807</u>	<u>\$ 5,460,311</u>	<u>\$ 74,270</u>	<u>\$ 66,400,848</u>
Less: accumulated depreciation for				
Buildings	\$ 2,153,038	\$ 115,572	\$ -	\$ 2,268,610
Machinery and equipment	3,738,502	361,987	73,337	4,027,152
Infrastructure	13,407,334	1,082,231	466	14,489,099
Total accumulated depreciation	<u>\$ 19,298,874</u>	<u>\$ 1,559,790</u>	<u>\$ 73,803</u>	<u>\$ 20,784,861</u>
Total capital assets depreciated, net	<u>\$ 41,715,933</u>	<u>\$ 3,900,521</u>	<u>\$ 467</u>	<u>\$ 45,615,987</u>
Governmental Activities Capital Assets, Net	<u>\$ 42,829,037</u>	<u>\$ 3,900,521</u>	<u>\$ 467</u>	<u>\$ 46,729,091</u>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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	460,330	268,993	270,248	459,075
Total capital assets depreciated	\$ 484,030	\$ 268,993	\$ 270,248	\$ 482,775
Less: accumulated depreciation for				
Buildings	\$ 20,606	\$ 790	\$ -	\$ 21,396
Machinery and equipment	330,343	41,003	168,905	202,441
Total accumulated depreciation	\$ 350,949	\$ 41,793	\$ 168,905	\$ 223,837
Total capital assets depreciated, net	\$ 133,081	\$ 227,200	\$ 101,343	\$ 258,938
Business-Type Activities				
Capital Assets, Net	\$ 296,963	\$ 227,200	\$ 101,343	\$ 422,820

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

Governmental Activities	
General government	\$ 64,588
Public safety	58,347
Highways and streets, including depreciation of infrastructure assets	1,382,056
Sanitation	6,911
Human services	24,620
Culture and recreation	23,268
Total Depreciation Expense - Governmental Activities	<u>\$ 1,559,790</u>
Business-Type Activities	
Landfill	<u>\$ 41,793</u>

**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, 2011, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Family Services	\$ 1,013
Road and Bridge	General	4,684
Road and Bridge	Ditch	180
Road and Bridge	Landfill Enterprise	922
Family Services	General	19
		\$ 6,818
Total Due To/From Other Funds		\$ 6,818

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. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General	Road and Bridge	\$ 600,000
General	Ditch	201,426
		\$ 801,426
Total Advances To/From Other Funds		\$ 801,426

The advance to the Road and Bridge Special Revenue Fund is to provide cash for operating costs and highway projects. The General Fund will continue making advances to the Road and Bridge Special Revenue Fund until the cash deficit is resolved.

The advance to the Ditch Special Revenue Fund is to provide working capital to ditch systems 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**

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3. Detailed Notes on All Funds

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

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2011, consisted of the following:

Transfers to General Fund from Landfill Fund	\$ 12,500	Provide funds for recycling
Transfers to Road and Bridge Fund from General Fund	330,000	Provide funds for operations
Transfer to Ditch Fund from General Fund	516	Interest distribution
Transfers to Landfill Fund from General Fund	<u>59,307</u>	Interest distribution
Total Interfund Transfers	<u>\$ 402,323</u>	

C. Liabilities

1. Payables

Payables at December 31, 2011, were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts	\$ 240,347	\$ 9,825
Salaries	225,826	3,022
Contracts	243,578	70,696
Due to other governments	<u>34,695</u>	<u>-</u>
Total Payables	<u>\$ 744,446</u>	<u>\$ 83,543</u>

2. 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 four elected officials who were eligible for this benefit in 2011. The total cost for this program totaled \$37,686 in 2011.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities

2. Other Postemployment Benefits (OPEB)

Elected Officials' Benefits (Continued)

The County also provides health insurance benefits for eligible retired employees and their spouses under a single-employer self-insured plan. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b. Retirees are required to pay 100 percent of the total premium cost. Since the premium is determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. This postemployment benefit is funded on a pay-as-you-go basis, usually paying retiree benefits out of the General Fund. At January 1, 2011, the date of the last valuation, there were approximately 115 participants in the plan, including 11 retirees. The implicit rate subsidy amount was determined by an actuarial study to be \$17,480 for 2011.

Annual OPEB Cost and Net OPEB Obligation

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

ARC	\$ 37,433
Interest on net OPEB obligation (asset)	(507)
Adjustment to ARC	1,956
	<hr/>
Annual OPEB cost (expense)	\$ 38,882
Contributions made	(55,166)
	<hr/>
Increase (decrease) in net OPEB obligation	\$ (16,284)
Net OPEB Obligation (Asset) - January 1	(50,734)
	<hr/>
Net OPEB Obligation (Asset) - December 31	\$ (67,018)
	<hr/>



**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities

2. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended December 31, 2009, 2010, and 2011, were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
December 31, 2009	\$ 51,712	\$ 69,543	134.5%	\$ (63,919)
December 31, 2010	52,074	38,889	74.7	(50,734)
December 31, 2011	38,882	55,166	141.9	(67,018)

Funded Status and Funding Progress

As of January 1, 2011, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial liability for benefits was \$324,423, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$324,423. The covered payroll (annual payroll of active employees covered by the plan) was \$4,291,386, and the ratio of the UAAL to the covered payroll was 7.6 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 the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress - Other Postemployment Benefits, presented as required supplementary information, 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.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities

2. Other Postemployment Benefits (OPEB) (Continued)

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, 2011, actuarial valuation, the projected unit credit actuarial method was used. The actuarial assumptions include a 1.0 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 3.0 percent. Neither rate includes an inflation assumption. The UAAL is being amortized over 30 years on a closed basis as a level dollar amount. The remaining amortization period at December 31, 2011, was 26 years.

3. Capital Lease

The County has entered into a lease agreement with Merchants Capital Resources, Inc., for financing a 2012 Case 1150K Dozer for the Highway Department. 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, 2011:

<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, 2011</u>
2012 Case 1150K Dozer	2016	\$ 28,172	0.03	<u>\$ 156,285</u>	<u>\$ 128,113</u>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Capital Lease (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2011, were as follows:

Year Ending December 31	Governmental Activities
2012	\$ 28,172
2013	28,172
2014	28,172
2015	28,172
2016	28,172
Total minimum lease payments	\$ 140,860
Less: amount representing interest	(12,747)
Present Value of Minimum Lease Payments	\$ 128,113

Subsequent Event

The County entered into a lease agreement with John Deere on January 24, 2012, for financing two 2012 Motor Graders for the Highway Department in the amount of \$377,077.

4. Long-Term Debt

Governmental Activities

Bonds Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2011
Special assessment bonds with government commitment					
2011 G.O. Drainage Refunding Bonds	2020	\$105,000 - \$160,000	2.0375	\$ 1,090,000	\$ 1,090,000
Add: unamortized premium					21,050
Total Governmental Activities, Net					\$ 1,111,050

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Long-Term Debt

Governmental Activities (Continued)

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.

5. Debt Service Requirements

Debt service requirements at December 31, 2011, were as follows:

Governmental Activities

Year Ending December 31	Special Assessment Bonds		Loans Payable	
	Principal	Interest	Principal	Interest
2012	\$ -	\$ 14,745	\$ 145,210	\$ 9,143
2013	160,000	20,518	142,276	7,277
2014	160,000	17,318	119,167	5,495
2015	160,000	14,118	100,170	4,016
2016	160,000	10,918	101,774	2,627
2017 - 2021	450,000	18,554	166,704	2,939
2022 - 2025	-	-	9,202	-
Total	<u>\$ 1,090,000</u>	<u>\$ 96,171</u>	<u>\$ 784,503</u>	<u>\$ 31,497</u>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities

5. Debt Service Requirements

Governmental Activities (Continued)

Clean water loans in the amount of \$169,085 are not included in the debt service requirements because a fixed repayment schedule is not available.

Current Debt Refunding

On December 1, 2011, the County issued \$1,090,000 of G.O. Drainage Refunding Bonds of 2011 with an average interest rate of 2.0375 percent to advance refund the G.O. Drainage Crossover Refunding Bonds of 2005 with an average interest rate of 3.5586 percent. The net proceeds of \$1,080,000 will be used to pay the refunded bonds on their call date of February 1, 2012. The 2005 G.O. Drainage Crossover Refunding Bonds due in 2012 have been reclassified as a fund liability of the Ditch Special Revenue Fund.

The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$27,313. This difference, reported in the statement of net assets as a deduction from bonds payable, is being charged through 2020 using the straight-line method. The County completed the refunding to reduce its total debt service payments over the next nine years by \$70,319 and to obtain an economic gain (difference between the present value of the old and new debt service payments) of \$65,196.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, 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)					
G.O. Drainage Crossover Refund Bond 2005 (Ditch)	\$ 1,395,000	\$ -	\$ 1,395,000	\$ -	\$ -
G.O. Drainage Crossover Refund Bond 2011 (Ditch)	-	1,090,000	-	1,090,000	-
Less: unamortized discount	(17,390)	-	(17,390)	-	-
Add: unamortized premium	-	21,228	178	21,050	-
<b>Total bonds payable</b>	<b>\$ 1,377,610</b>	<b>\$ 1,111,228</b>	<b>\$ 1,377,788</b>	<b>\$ 1,111,050</b>	<b>\$ -</b>
Loans payable	995,064	92,676	134,152	953,588	145,210
Capital lease	1,524	156,285	29,696	128,113	24,012
Compensated absences	704,267	36,321	-	740,588	32,067
<b>Governmental Activities Long-Term Liabilities</b>	<b>\$ 3,078,465</b>	<b>\$ 1,396,510</b>	<b>\$ 1,541,636</b>	<b>\$ 2,933,339</b>	<b>\$ 201,289</b>

Business-Type Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Estimated liability for landfill closure and postclosure care	\$ 1,114,714	\$ 133,601	\$ -	\$ 1,248,315	\$ -
Compensated absences	18,653	-	17,863	790	-
<b>Business-Type Activities Long-Term Liabilities</b>	<b>\$ 1,133,367</b>	<b>\$ 133,601</b>	<b>\$ 17,863</b>	<b>\$ 1,249,105</b>	<b>\$ -</b>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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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 \$1,248,315 landfill closure and postclosure care liability at December 31, 2011, represents the cumulative amount reported to date based on the use of 64 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$703,598 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2011.

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

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, 2011, the County has \$1,705,213 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 Intergovernmental 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.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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5. Risk Management (Continued)

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 \$450,000 per claim in 2011 and \$460,000 per claim in 2012. 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.

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 General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund (the Public Employees Correctional Fund), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.



**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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6. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan, and benefits vest after three years of credited service (five years for those first eligible for membership after June 30, 2010).

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. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

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. Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for General Employees Retirement Fund Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each 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

**COTTONWOOD COUNTY  
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6. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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 General 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 General 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 General 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.

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. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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6. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60 percent. 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 2011:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	14.40
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2011, 2010, and 2009, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
General Employees Retirement Fund	\$ 262,984	\$ 262,380	\$ 251,685
Public Employees Police and Fire Fund	78,044	73,683	64,366
Public Employees Correctional Fund	34,344	33,714	33,755

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

B. Defined Contribution Plan

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

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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6. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

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, 2011, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 4,934	\$ 4,934
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

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.

Cottonwood County has been notified by the Minnesota Department of Transportation that funding previously received on four federally funded highway construction projects may be required to be repaid due to insufficient action to complete and finalize these projects.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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7. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities (Continued)

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the 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 2011, Cottonwood County contributed \$129,869 to the Health Services Board.

Complete financial statements for the Cottonwood-Jackson Community Health Services Board can be obtained at 407 Fifth Street, Suite 209, Jackson, Minnesota 56143.

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, Martin, 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.

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

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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7. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Red Rock Rural Water System (Continued)

Water System. Outstanding governmental activities indebtedness at December 31, 2010 (the most current information available), amounted to \$13,363,000, and business-type indebtedness was \$241,629. The Water System's net assets decreased by \$130,751 in 2010.

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

Southwest Regional Solid Waste Commission

The County has entered into a joint powers agreement with a number of other counties to create and operate the Southwest Regional Solid Waste Commission under the authority of Minn. Stat. § 471.59. The Commission was formed to exercise the County's authority and obligation pursuant to Minn. Stat. chs. 400 and 115A; to provide for the management of solid waste in the respective counties; and provide the greatest public service benefit possible for the entire contiguous 12-county area encompassed by the counties in planning, management, and implementation of methods to deal with solid waste in southwest Minnesota.

The governing board is composed of one Board member from each of the participating counties. Financing of the Commission's solid waste management program is through appropriations from the participating counties, grants and loans from the Minnesota Office of Waste Management, or from the sale of bonds or other obligations secured by revenues of the Commission. Administration and planning costs of the Commission are assessed to the counties on equal shares up to \$1,000 per county per year. The current assessment is \$500.

The Commission is headquartered in Ivanhoe, Minnesota, where Lincoln County acts as fiscal host. A complete financial report of the Southwest Regional Solid Waste Commission can be obtained from the Lincoln County Auditor at 319 Rebecca Street, P. O. Box 29, Ivanhoe, Minnesota 56142.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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7. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

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.

The Consortium Board shall take actions and enter into such agreements as may be necessary to plan and develop within the Southwestern Minnesota Adult Mental Health 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, 2009 (the latest available):

Total assets	\$ 2,304,308
Total liabilities	327,637
Total net assets	1,976,671
Total revenues	4,271,686
Total expenses	4,327,451
Net decrease in net assets	55,765

The Consortium Board reported no long-term obligations at December 31, 2009.

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.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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

C. Jointly-Governed Organizations

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

Area II Minnesota River Basin Project

The Area II Minnesota River Basin Project provides cost-share and technical assistance for the implementation of flood reduction measures to the area between the Cities of Ortonville and Mankato. During the year, the County paid \$3,854 to the Project.

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.

Greater Blue Earth River Basin Alliance (GBERBA)

The Greater Blue Earth River Basin Alliance establishes goals, policies, and objectives to protect and enhance land and water resources in the Greater Blue Earth River Basin. During the year, the County made \$2,868 in contributions to the GBERBA.

Minnesota River Board

The Minnesota River Board was established to promote orderly water quality improvement and management of the Minnesota River Watershed. During the year, the County paid \$893 to the Board.

Redwood-Cottonwood Rivers Control Area

The Redwood-Cottonwood Rivers Control Area (RCRCA) promotes orderly water quality improvements and management within the boundaries of the watersheds of the Redwood and Cottonwood Rivers for the participating counties. During the year, the County paid \$7,440 of the County levy to the RCRCA.



**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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7. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Rural Minnesota Energy Board

The Rural Minnesota Energy Board was established in 2005 to provide policy guidance on issues surrounding energy development in rural Minnesota and to foster the diversification of the economic climate in rural Minnesota. During 2011, Cottonwood County paid \$2,500 to the Board.

Southwest Minnesota Regional Radio Board

The Southwest Minnesota Regional Radio Board Joint Powers Board was established to formulate a regional radio board to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER). During 2011, Cottonwood County contributed \$2,975 to the Joint Powers Board.

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 2011.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**EXHIBIT A-1**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 3,731,391	\$ 3,731,391	\$ 3,623,951	\$ (107,440)
Special assessments	358,500	358,500	327,011	(31,489)
Licenses and permits	10,100	10,100	9,235	(865)
Intergovernmental	1,027,597	1,027,597	1,278,179	250,582
Charges for services	352,700	352,700	330,221	(22,479)
Fines and forfeits	12,500	12,500	7,371	(5,129)
Gifts and contributions	-	-	100	100
Investment earnings	256,100	256,100	162,222	(93,878)
Miscellaneous	134,155	183,155	236,305	53,150
<b>Total Revenues</b>	<b>\$ 5,883,043</b>	<b>\$ 5,932,043</b>	<b>\$ 5,974,595</b>	<b>\$ 42,552</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 271,933	\$ 271,933	\$ 267,907	\$ 4,026
Courts	23,900	23,900	26,824	(2,924)
Law library	7,500	7,500	14,428	(6,928)
Auditor/treasurer	500,258	500,258	475,162	25,096
Assessor	302,349	302,349	299,703	2,646
Elections	33,790	33,790	32,719	1,071
Attorney	324,708	294,708	265,224	29,484
Recorder	176,351	206,351	214,924	(8,573)
Building and plant	140,229	154,791	168,557	(13,766)
Veterans service officer	92,465	92,465	82,439	10,026
Transit	130,962	130,962	146,836	(15,874)
Other general government	173,095	176,070	156,036	20,034
<b>Total general government</b>	<b>\$ 2,177,540</b>	<b>\$ 2,195,077</b>	<b>\$ 2,150,759</b>	<b>\$ 44,318</b>
<b>Public safety</b>				
Sheriff	\$ 1,017,917	\$ 1,450,417	\$ 1,566,727	\$ (116,310)
Emergency services	102,975	102,975	90,500	12,475
Coroner	10,700	10,700	36,326	(25,626)
Safety program	2,000	5,500	2,811	2,689
Jail	849,174	849,174	799,399	49,775
Probation and parole	99,489	99,489	110,008	(10,519)
<b>Total public safety</b>	<b>\$ 2,082,255</b>	<b>\$ 2,518,255</b>	<b>\$ 2,605,771</b>	<b>\$ (87,516)</b>
<b>Sanitation</b>				
Recycling	\$ 265,900	\$ 265,900	\$ 227,089	\$ 38,811
<b>Health</b>				
Community health	\$ 10,025	\$ 10,025	\$ 12,905	\$ (2,880)

The notes to the required supplementary information are an integral part of this schedule.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**EXHIBIT A-1  
(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Culture and recreation</b>				
Parks	\$ 95,644	\$ 95,644	\$ 71,873	\$ 23,771
Minnesota trails	-	-	23,316	(23,316)
Regional library	55,850	55,850	68,092	(12,242)
<b>Total culture and recreation</b>	<b>\$ 151,494</b>	<b>\$ 151,494</b>	<b>\$ 163,281</b>	<b>\$ (11,787)</b>
<b>Conservation of natural resources</b>				
Extension	\$ 129,701	\$ 129,701	\$ 124,028	\$ 5,673
Soil and water conservation	81,600	81,600	92,214	(10,614)
Water planning	127,517	127,517	115,887	11,630
Water quality loan program	-	-	91,570	(91,570)
Environmental services	96,775	96,775	83,881	12,894
<b>Total conservation of natural resources</b>	<b>\$ 435,593</b>	<b>\$ 435,593</b>	<b>\$ 507,580</b>	<b>\$ (71,987)</b>
<b>Intergovernmental</b>				
Health	\$ 129,869	\$ 129,869	\$ 159,869	\$ (30,000)
<b>Debt service</b>				
Principal	\$ 200,509	\$ 200,509	\$ 135,676	\$ 64,833
Interest	-	-	10,756	(10,756)
<b>Total Expenditures</b>	<b>\$ 5,453,185</b>	<b>\$ 5,906,722</b>	<b>\$ 5,973,686</b>	<b>\$ (66,964)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 429,858</b>	<b>\$ 25,321</b>	<b>\$ 909</b>	<b>\$ (24,412)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 12,500	\$ 12,500	\$ 12,500	\$ -
Transfers out	(30,000)	(30,000)	(389,823)	(359,823)
Loans issued	-	-	92,676	92,676
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (17,500)</b>	<b>\$ (17,500)</b>	<b>\$ (284,647)</b>	<b>\$ (267,147)</b>
<b>Net Change in Fund Balance</b>	<b>\$ 412,358</b>	<b>\$ 7,821</b>	<b>\$ (283,738)</b>	<b>\$ (291,559)</b>
<b>Fund Balance - January 1</b>	<b>7,650,124</b>	<b>7,650,124</b>	<b>7,650,124</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 8,062,482</b>	<b>\$ 7,657,945</b>	<b>\$ 7,366,386</b>	<b>\$ (291,559)</b>

The notes to the required supplementary information are an integral part of this schedule.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

*EXHIBIT A-2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 964,558	\$ 964,558	\$ 953,311	\$ (11,247)
Special Assessments	-	-	17	17
Intergovernmental	5,825,565	5,825,565	5,481,613	(343,952)
Charges for services	30,000	30,000	59,783	29,783
Miscellaneous	69,800	69,800	90,999	21,199
<b>Total Revenues</b>	<b>\$ 6,889,923</b>	<b>\$ 6,889,923</b>	<b>\$ 6,585,723</b>	<b>\$ (304,200)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 193,327	\$ 193,327	\$ 189,011	\$ 4,316
Maintenance	1,254,571	1,254,571	1,351,144	(96,573)
Construction	4,275,834	4,275,834	4,421,533	(145,699)
Equipment and maintenance shops	869,691	869,691	1,127,518	(257,827)
<b>Total highways and streets</b>	<b>\$ 6,593,423</b>	<b>\$ 6,593,423</b>	<b>\$ 7,089,206</b>	<b>\$ (495,783)</b>
<b>Intergovernmental</b>				
Highways and streets	296,500	296,500	321,353	(24,853)
<b>Debt service</b>				
Principal	-	-	28,172	(28,172)
<b>Total Expenditures</b>	<b>\$ 6,889,923</b>	<b>\$ 6,889,923</b>	<b>\$ 7,438,731</b>	<b>\$ (548,808)</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (853,008)</b>	<b>\$ (853,008)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ -	\$ -	\$ 330,000	\$ 330,000
Capital lease purchase	-	-	156,285	156,285
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 486,285</b>	<b>\$ 486,285</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (366,723)</b>	<b>\$ (366,723)</b>
<b>Fund Balance - January 1</b>	<b>(316,225)</b>	<b>(316,225)</b>	<b>(316,225)</b>	<b>-</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>-</b>	<b>86,268</b>	<b>86,268</b>
<b>Fund Balance - December 31</b>	<b>\$ (316,225)</b>	<b>\$ (316,225)</b>	<b>\$ (596,680)</b>	<b>\$ (280,455)</b>

The notes to the required supplementary information are an integral part of this schedule.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

*EXHIBIT A-3*

**BUDGETARY COMPARISON SCHEDULE  
FAMILY SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,926,713	\$ 1,926,713	\$ 1,935,062	\$ 8,349
Intergovernmental	2,000,038	2,000,038	1,795,957	(204,081)
Charges for services	53,231	53,231	46,333	(6,898)
Miscellaneous	443,801	443,801	352,465	(91,336)
<b>Total Revenues</b>	<b>\$ 4,423,783</b>	<b>\$ 4,423,783</b>	<b>\$ 4,129,817</b>	<b>\$ (293,966)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 1,121,707	\$ 1,121,707	\$ 1,050,836	\$ 70,871
Social services	3,272,495	3,272,495	2,919,944	352,551
<b>Total Expenditures</b>	<b>\$ 4,394,202</b>	<b>\$ 4,394,202</b>	<b>\$ 3,970,780</b>	<b>\$ 423,422</b>
<b>Net Change in Fund Balance</b>	<b>\$ 29,581</b>	<b>\$ 29,581</b>	<b>\$ 159,037</b>	<b>\$ 129,456</b>
<b>Fund Balance - January 1</b>	<b>1,011,904</b>	<b>1,011,904</b>	<b>1,011,904</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,041,485</b>	<b>\$ 1,041,485</b>	<b>\$ 1,170,941</b>	<b>\$ 129,456</b>



**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

*EXHIBIT A-4*

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS  
DECEMBER 31, 2011**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded Actuarial Accrued Liability (UAAL) (b-a)</b>	<b>Funded Ratio (%) (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage (%) of Covered Payroll ((b-a)/c)</b>
January 1, 2008	\$ -	\$ 393,153	\$ 393,153	0.0	\$ 4,124,724	9.5
January 1, 2011	-	324,423	324,423	0.0	4,291,386	7.6

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**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2011

1. General Budget Policies

The Cottonwood County Board adopts estimated revenue and expenditure budgets for the General Fund and some 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 some special revenue funds.

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 and Building Capital Projects Fund were amended as follows:

Revenues	Original Budget	Increase (Decrease)	Final Budget
General Fund	\$ 5,883,043	\$ 49,000	\$ 5,932,043
Expenditures	Original Budget	Increase (Decrease)	Final Budget
General Fund	\$ 5,453,185	\$ 453,537	\$ 5,906,722
Building Capital Projects Fund	51,000	164,000	215,000

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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4. Excess of Expenditures Over Appropriations

The following funds had expenditures in excess of appropriations (the legal level of budgetary control) for the year ended December 31, 2011:

<u>Fund</u>	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 5,973,686	\$ 5,906,722	\$ 66,964
Road and Bridge Special Revenue Fund	7,438,731	6,889,923	548,808

The expenditures in excess of budget were funded by unbudgeted revenues and fund balance. The Road and Bridge Special Revenue Fund expenditures in excess of budget were also funded by transfers from the General Fund. The primary reasons for the excess expenditures in the General Fund were attributable to the unbudgeted Water Quality Loan program expenditures and numerous expenditures for upgrades to the County's emergency system. The primary reason for the excess expenditures in the Road and Bridge Special Revenue Fund was attributable to various unbudgeted increases for maintenance, construction, and repairs.

5. Other Postemployment Benefits Funded Status

Complete multi-year trend information is not available at this time, as Governmental Accounting Standards Board Statement 45 was implemented in 2008. Future notes will provide additional trend analysis to meet the three actuarial valuations requirement as it becomes available. See Note 3.C.2., Other Postemployment Benefits, for more information.

**SUPPLEMENTARY INFORMATION**

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**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

*EXHIBIT B-1*

**BUDGETARY COMPARISON SCHEDULE  
BUILDING CAPITAL PROJECTS FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 47,069	\$ 47,069	\$ 45,878	\$ (1,191)
Intergovernmental	2,931	2,931	2,931	-
Miscellaneous	65,400	65,400	66,120	720
<b>Total Revenues</b>	<b>\$ 115,400</b>	<b>\$ 115,400</b>	<b>\$ 114,929</b>	<b>\$ (471)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Buildings and plant	51,000	215,000	207,276	7,724
<b>Net Change in Fund Balance</b>	<b>\$ 64,400</b>	<b>\$ (99,600)</b>	<b>\$ (92,347)</b>	<b>\$ 7,253</b>
<b>Fund Balance - January 1</b>	<b>162,161</b>	<b>162,161</b>	<b>162,161</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 226,561</b>	<b>\$ 62,561</b>	<b>\$ 69,814</b>	<b>\$ 7,253</b>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

*EXHIBIT B-2*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>AGENCY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>104,063</u>	\$ <u>784,233</u>	\$ <u>622,043</u>	\$ <u>266,253</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>104,063</u>	\$ <u>784,233</u>	\$ <u>622,043</u>	\$ <u>266,253</u>
 <b><u>MENTAL HEALTH CONSORTIUM</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>1,475,951</u>	\$ <u>8,112,198</u>	\$ <u>8,410,199</u>	\$ <u>1,177,950</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>1,475,951</u>	\$ <u>8,112,198</u>	\$ <u>8,410,199</u>	\$ <u>1,177,950</u>
 <b><u>MORTGAGE REGISTRY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>10,916</u>	\$ <u>63,423</u>	\$ <u>69,866</u>	\$ <u>4,473</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>10,916</u>	\$ <u>63,423</u>	\$ <u>69,866</u>	\$ <u>4,473</u>



**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

*EXHIBIT B-2  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<b>Balance January 1</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>25,014</u>	\$ <u>128,579</u>	\$ <u>137,031</u>	\$ <u>16,562</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>25,014</u>	\$ <u>128,579</u>	\$ <u>137,031</u>	\$ <u>16,562</u>
 <b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>278,326</u>	\$ <u>16,464,900</u>	\$ <u>16,637,042</u>	\$ <u>106,184</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>278,326</u>	\$ <u>16,464,900</u>	\$ <u>16,637,042</u>	\$ <u>106,184</u>
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>1,894,270</u>	\$ <u>25,553,333</u>	\$ <u>25,876,181</u>	\$ <u>1,571,422</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>1,894,270</u>	\$ <u>25,553,333</u>	\$ <u>25,876,181</u>	\$ <u>1,571,422</u>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**EXHIBIT B-3**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**Shared Revenue**

**State**

Highway users tax	\$ 3,761,806
County program aid	256,500
PERA rate reimbursement	17,411
Disparity reduction aid	43,251
Police aid	59,869
Enhanced 911	94,944
Market value credit	403,686
	<u>403,686</u>

**Total shared revenue** **\$ 4,637,467**

**Reimbursement for Services**

**State**

Minnesota Department of Human Services	\$ 297,248
	<u>297,248</u>

**Payments**

**Local**

Payments in lieu of taxes	\$ 195,420
	<u>195,420</u>

**Grants**

**State**

Minnesota Department/Board of	
Corrections	\$ 20,121
Public Safety	2,639
Transportation	77,239
Human Services	604,298
Natural Resources	24,280
Veterans Affairs	3,000
Water and Soil Resources	64,329
Pollution Control Agency	55,950
	<u>851,856</u>

**Total state** **\$ 851,856**

**Federal**

Department of	
Agriculture	\$ 83,520
Commerce	18,983
Transportation	1,686,586
Health and Human Services	736,092
Homeland Security	51,508
	<u>2,576,689</u>

**Total federal** **\$ 2,576,689**

**Total state and federal grants** **\$ 3,428,545**

**Total Intergovernmental Revenue** **\$ 8,558,680**

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

*EXHIBIT B-4*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

<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 (SNAP)	10.561	\$ <u>83,520</u>
<b>U.S. Department of Commerce</b>		
Passed Through Lyon County Public Safety Interoperable Communications Grant Program	11.555	\$ <u>18,983</u>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 1,696,103
Formula Grants for Other Than Urbanized Areas	20.509	33,253
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	<u>2,295</u>
<b>Total U.S. Department of Transportation</b>		<b>\$ <u>1,731,651</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	\$ 359
Temporary Assistance for Needy Families (TANF) Cluster		
TANF	93.558	69,267
Emergency Contingency Fund for TANF State Program - ARRA	93.714	8,220
Child Support Enforcement	93.563	168,305
Child Care and Development Fund Cluster		
Child Care and Development Block Grant	93.575	174
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	5,528
Stephanie Tubbs Jones Child Welfare Services Program	93.645	2,139
Foster Care - Title IV-E	93.658	16,904
Social Services Block Grant	93.667	119,251
Chafee Foster Care Independence Program	93.674	10,400
Children's Health Insurance Program	93.767	121
Medical Assistance Program	93.778	332,921
Block Grants for Community Mental Health Services	93.958	<u>2,503</u>
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ <u>736,092</u></b>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

***EXHIBIT B-4  
(Continued)***

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Public Safety Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ 4,871
Passed Through Lyon County		
Interoperable Emergency Communications	97.055	2,014
Homeland Security Grant Program	97.067	44,623
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 51,508</b>
<b>Total Federal Awards</b>		<b>\$ 2,621,754</b>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Cottonwood County. The County's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Cottonwood County under programs of the federal government for the year ended December 31, 2011. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Cottonwood County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Cottonwood County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 2,576,689
Grants received more than 60 days after year-end deferred in 2011 Highway Planning and Construction	<u>45,065</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u><u>\$ 2,621,754</u></u>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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5. Subrecipients

During 2011, the County did not pass any federal money to subrecipients.

6. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.



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**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

**Financial Statements**

Type of auditor's report issued: **Unqualified**

Internal control over financial reporting:

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

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

**Federal Awards**

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **Yes**

The major program is:

Highway Planning and Construction

CFDA #20.205

The threshold for distinguishing between Types A and B programs was \$300,000.

Cottonwood County qualified as low-risk auditee? **Yes**

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

### INTERNAL CONTROL

#### PREVIOUSLY REPORTED ITEMS NOT RESOLVED

##### 00-3 Annual Adopted Budget and Budget Policy

**Criteria:** Written policies and procedures outline the specific authority and responsibility of County personnel, providing for accountability.

**Condition:** The Board has not developed and adopted a formal budget policy for management's administration of the County budget. Detailed budget information has not been made readily available in the published Board minutes. The County Board adopts a summarized budget at the fund level on an annual basis. Detailed estimated revenue sources by fund and budgeted expenditures by fund, function, and department are available upon request at the Courthouse.

**Context:** Written policies serve as a reference and training tool for new personnel and ensure that procedures remain in place despite personnel turnover. To be effective, an accounting policies and procedures manual must be complete, up-to-date, and readily available to all personnel who need it.

**Effect:** Budgeting procedures may not be clear or fully understood by all those involved in the budgeting process.

**Cause:** Budgeting procedures exist; however, these procedures have not been formalized into written form to be approved by the Board and included in the County's Accounting Policies and Procedures Handbook.

**Recommendation:** We 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:

*A budget policy will be developed.*

06-2 Capital Assets Policies and Procedures

**Criteria:** The County is required by generally accepted accounting standards to account for and depreciate its capital assets over their estimated useful lives. The costs of capital assets are expensed annually as depreciation expense while the asset is in service. As many factors affect the useful life of an asset, periodic reassessment of estimated useful lives may be appropriate. Any change in useful life should be applied prospectively.

**Condition:** The County is carrying a significant amount of fully depreciated assets. Typically, a capital asset still in use should not be considered fully depreciated.

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

**Effect:** Including fully depreciated items in capital assets results in an overstatement of accumulated depreciation and understatement of net assets.

**Cause:** The County has not performed a recent, thorough review of the estimated useful lives used in its capital assets system.

**Recommendation:** We recommend that the County review fully depreciated assets to determine whether adjustments need to be made to the capital assets records. We further recommend that the County review and update its capital assets policy to include the periodic review of useful lives.

Client's Response:

*The capital asset policy will be reviewed.*

06-6 Audit Adjustments

**Criteria:** A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Statement on Auditing Standards 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis.

**Condition:** During our audit, we proposed audit adjustments which were reviewed and approved by the appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the County's internal control.

**Context:** The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

**Effect:** Audit adjustments were necessary to record additional payables found during the audit, to adjust capital assets records, and to record the drainage refunding bonds.

**Cause:** Cottonwood County staff did not have the time to prepare all of the information necessary to provide accurate financial statements.

**Recommendation:** We recommend that the County review internal controls currently in place and design and implement procedures to improve internal controls over financial reporting which will prevent, or detect and correct, misstatements in the financial statements. The updated controls should include review of the balances and supporting documentation by a qualified individual to identify potential misstatements.

Client's Response:

*The County will comply.*

ITEM ARISING THIS YEAR

11-1 Recording Additions to Capital Assets

**Criteria:** The County is required by generally accepted accounting standards to account for and depreciate its capital assets over their estimated useful lives. Capital assets acquired throughout the year should be included as additions to the County's records of capital assets and properly recorded following generally accepted accounting principles. The County's capital assets policy requires that assets with an initial, individual cost of \$5,000 and an estimated useful life in excess of two years be capitalized.

**Condition:** Capital assets acquired during 2011 were omitted or incorrectly recorded in the County's records of capital assets. Several items related to remodeling, repairs, and system upgrades were omitted from the list of additions to capital assets. One addition, which included the trade-in of a County-owned item, was incorrectly recorded.

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

**Effect:** Excluding items from capital assets records resulted in the misstatement of County assets, depreciation, accumulated depreciation, and net assets amounts.

**Cause:** County personnel did not consider remodeling, repairs, and system upgrades in its determination of capital asset additions during 2011. The incorrect recording of the item purchased with a trade-in was an oversight by County personnel.

**Recommendation:** We recommend that County personnel review the County's capital assets policy to determine whether approved procedures are followed. We further recommend that the County review and update its capital assets policy with procedures that may strengthen internal controls over capital assets.

Client's Response:

*More internal review will be implemented.*

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

#### ITEM ARISING THIS YEAR

##### 11-2 Federal Highway Projects Not Finalized

**Program:** Highway Planning and Construction (CFDA No. 20.205)

**Criteria:** OMB Circular A-133 Compliance Supplement 2011, Part 4, indicates auditee responsibilities regarding project approval and authorization procedures for highway construction projects.

**Condition:** Cottonwood County has federally funded highway construction projects where it has not completed appropriate construction finalizing procedures. The Minnesota Department of Transportation has informed the County that funding previously received for these projects may be required to be repaid to the federal government.

**Questioned Costs:** None.

**Context:** The County has four outstanding federal highway projects that have not been finalized. One project is from 1997; the other three are from 1999. The total federal funding received by the County for the four projects is \$1,200,359.

**Effect:** Cottonwood County may have to repay federal funds previously received for work completed on federally funded highway projects.

**Cause:** The County has not taken sufficient action to complete and finalize all federally funded highway construction projects.

**Recommendation:** We recommend Cottonwood County take the appropriate steps to complete and finalize all federally funded highway construction projects in a timely manner.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*County Engineer Ronald Gregg and Assistant County Engineer Rory Lindvall*

Corrective Action Planned:

*The Cottonwood County Highway Department realizes the severity and consequences of not finalizing the open Federal Construction Projects. Highway Department staff have been working on finalizing these projects for several months. Some of the documents needed to complete these projects require the help of the Minnesota Department of Transportation and the Minnesota Department of Finance. Unfortunately, this is not a priority for these agencies, which is delaying the finalizing process. The Cottonwood County Highway Department plans to continue these efforts on a more diligent pace.*

Anticipated Completion Date:

*The Project Contractors have 90 days to respond to our request for IC 134 documentation, and all Contractors have been notified. Therefore, all final documents shall be available for processing by June 30, 2012. The Highway Department intends to have these federal projects completed by June 15, 2012.*

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

11-3 Insufficient Federal Deposit Insurance Corporation (FDIC) Coverage

**Criteria:** Under Minn. Stat. § 118A.04, subd. 5, government entities can only invest in time deposits that are fully insured by the FDIC.

**Condition:** The County had time deposits at Goldman Sachs Bank USA which were not adequately covered by the FDIC.

**Context:** The amount of the time deposits not covered by sufficient FDIC coverage was \$71,458 at December 31, 2011.

**Effect:** The County was not in compliance with Minnesota statutes regarding investment time deposits.

**Cause:** There was a merger between Goldman Sachs institutions. The change in FDIC coverage was overlooked by the County's broker and Auditor/Treasurer staff.

**Recommendation:** We recommend the County monitor all County investments in time deposits to determine there is adequate FDIC coverage in accordance with Minn. Stat. § 118A.04, subd. 5.

Client's Response:

*The County will attempt to monitor bank takeovers and sales in order to avoid this situation.*

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-6

County Ditch Fund Deficits

**Criteria:** Assets should exceed liabilities in order for the County to meet its obligations and maintain a positive fund balance. Through the levying of assessments, Minn. Stat. § 103E.735, subd. 1, permits the accumulation of a surplus balance for the repair costs of a ditch system not to exceed 20 percent of the assessed benefits of the ditch system or \$100,000, whichever is greater.

**Condition:** As of December 31, 2011, the County had individual ditch systems where liabilities exceeded assets, resulting in individual deficit fund balance amounts.

**Context:** Seven of the 86 individual ditch systems had deficit fund balances as of December 31, 2011, totaling \$429,306, which is an increase from the \$396,947 deficit reported in the prior year.

**Effect:** Allowing a ditch system to maintain a deficit fund balance, in effect, constitutes an interest-free loan from other individual ditch systems.

**Cause:** Ditch expenditures were necessary, and the ditch levies were not sufficient to cover all costs.

**Recommendation:** 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 costs of a ditch system.

Client's Response:

*The County will continue to address this problem.*

09-4

Road and Bridge Deficit Fund Balance

**Criteria:** Assets should exceed liabilities in order for the County to meet its obligations and maintain a positive fund balance.

**Condition:** As of December 31, 2011, the assets in the County's Road and Bridge Special Revenue Fund did not exceed liabilities, resulting in a deficit fund balance amount.

**Context:** As of December 31, 2011, the Road and Bridge Special Revenue Fund had a deficit fund balance of \$596,680, which is an increase from the \$316,225 deficit reported in the prior year.

**Effect:** A fund with a deficit fund balance is, in effect, borrowing from County funds with positive fund balances.

**Cause:** The County did not levy sufficient taxes nor transfer sufficient funds to cover the expenditures in the Road and Bridge Special Revenue Fund.

**Recommendation:** We recommend that the County monitor fund balances and eliminate the deficit fund balances by increasing revenues or appropriating sufficient funds to cover expenditures.

Client's Response:

*Several action items are being considered to address this situation.*





REBECCA OTTO  
STATE AUDITOR

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

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, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated May 25, 2012. 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

Management of Cottonwood County is responsible for establishing and maintaining effective 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.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as items 00-3, 06-2, 06-6, and 11-1, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### 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 Political Subdivisions*, 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 Political Subdivisions* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in tax increment financing because the County has no tax increment financing.

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 11-3.

Also included in the Schedule of Findings and Questioned Costs are management practices comments. We believe these recommendations to be of benefit to the County, and they are reported for that purpose.

Cottonwood County's written responses to the internal control, legal compliance, and management practices findings 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

May 25, 2012

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REBECCA OTTO  
STATE AUDITOR

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## **REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of County Commissioners  
Cottonwood County

### Compliance

We have audited Cottonwood County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2011. Cottonwood County's major federal program is 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 its major federal program 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 of the County's compliance with those requirements.

As described in item 11-2 in the accompanying Schedule of Findings and Questioned Costs, Cottonwood County did not comply with requirements regarding the period of availability and reporting that are applicable to its Highway Planning and Construction program, CFDA #20.205. Compliance with such requirements is necessary, in our opinion, for Cottonwood County to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Cottonwood County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2011.

### Internal Control Over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 11-2 to be a material weakness.

Cottonwood County's corrective action plan to the federal award finding identified in our audit is included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's corrective action plan and, accordingly, we express no opinion on it.

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*

REBECCA OTTO  
STATE AUDITOR

May 25, 2012

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR