STATE OF MINNESOTA
Office of the State Auditor

Rebecca Otto
State Auditor

COTTONWOOD COUNTY
WINDOM, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2013

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, 2013

Audit Practice Division
Office of the State Auditor
State of Minnesota

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WINDOM, MINNESOTA

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WINDOM, MINNESOTA

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Introductory Section

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COTTONWOOD COUNTY
WINDOM, MINNESOTA

ORGANIZATION
2013

Office	Name	Term Expires
Commissioners		
1st District	Jim Schmidt[2]	January 2015
2nd District	Kevin Stevens	January 2017
3rd District	Tom White	January 2015
4th District	Norm Holmen	January 2017
5th District	John Oeltjenbruns[1]	January 2015
Officials		
Elected		
Attorney	Nicholas Anderson	January 2015
Auditor/Treasurer	Jan Johnson	January 2015
County Recorder	Kathleen Kretsch	January 2015
Sheriff	Jason Purrington	January 2015
Appointed		
Assessor	Gale Bondhus	December 31, 2016
Highway Engineer	JinYeene Neumann	May 7, 2014
Veterans Service Officer	Todd Dibble	Indefinite
Environmental Officer	Gordy Olson	Interim
Emergency Services Director	Kim Hall	Indefinite
Family Service Director[3]	Craig Myers	Indefinite

[1] Chair 2013
[2] Chair 2014
[3] Family Services joined Des Moines Valley Health and Human Services (DVHHS) effective January 2014.

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Cottonwood County

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Cottonwood County as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2013, the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which represent changes in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2014, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* in considering Cottonwood County's internal control over financial reporting and compliance.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

May 30, 2014

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MANAGEMENT’S DISCUSSION AND ANALYSIS

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COTTONWOOD COUNTY
WINDOM, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013
(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, 2013. 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 15).

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is $58,409,490, of which $48,465,129 is the net investment in capital assets, leaving $2,813,908 of the governmental activities' net position restricted for specific uses and $7,130,453 as unrestricted.

- Business-type activities have a total net position of $1,495,037, of which $876,292 is the net investment in capital assets, leaving $469,049 of the business-type net position restricted for specific uses and $149,696 as unrestricted.

- Cottonwood County's net position increased by $852,707 for the year ended December 31, 2013. This increase is comprised of $958,216 in the governmental activities' net position and a decrease of $105,509 in business-type activities' net position.

- The net cost of governmental activities was $7,887,876 for the current fiscal year. The net cost was funded by general revenues and other items totaling $8,846,092.

- Governmental funds' fund balances increased by $120,645. This net increase was due mainly to increased tax revenues in the Road and Bridge Special Revenue Fund and increased special assessment revenues in the Ditch Special Revenue Fund.

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.

Management's Discussion and Analysis
(Required supplementary information)

Government-Wide Financial Statements (pages 15 through 17)	⟷	Fund Financial Statements (pages 18 through 31)

Notes to the Financial Statements
(pages 32 through 75)

Required Supplementary Information
(other than MD&A)
(pages 76 through 82)

There are two government-wide financial statements. The Statement of Net Position and the Statement of Activities (on pages 15 through 17) 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 18. 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 Position and the Statement of Activities

Our analysis of the County as a whole begins on page 15. The Statement of Net Position 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 position and changes in net position. You can think of the County's net position--the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources--as one way to measure the County's financial health, or financial position. Over time, increases or decreases in the County's net position 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 Position 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 18. 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 Position 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 Position 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 Position and Changes in Fiduciary Net Position 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 76 through 82.

THE COUNTY AS A WHOLE

The County's combined net position is $59,904,527. Looking at the net position and changes in net position of governmental and business-type activities separately, however, two different stories emerge. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the County's governmental and business-type activities.

Table 1
Net Position

	2013			
	Governmental Activities	Business-Type Activities	Total	2012
Assets				
Current and other assets	$ 13,331,762	$ 1,943,769	$ 15,275,531	$ 14,514,271
Capital assets	48,878,631	1,213,030	50,091,661	49,735,801
Total Assets	$ 62,210,393	$ 3,156,799	$ 65,367,192	$ 64,250,072
Deferred Outflows of Resources	$ 18,207	$ -	$ 18,207	$ -
Liabilities				
Long-term liabilities	$ 2,911,299	$ 1,648,402	$ 4,559,701	$ 4,411,570
Other liabilities	907,811	13,360	921,171	786,682
Total Liabilities	$ 3,819,110	$ 1,661,762	$ 5,480,872	$ 5,198,252
Net Position				
Net investment in capital assets	$ 48,465,129	$ 876,292	$ 49,341,421	$ 49,207,078
Restricted	2,813,908	469,049	3,282,957	2,320,155
Unrestricted	7,130,453	149,696	7,280,149	7,524,587
Total Net Position	$ 58,409,490	$ 1,495,037	$ 59,904,527	$ 59,051,820

Net position of the County's governmental activities was $58,409,490. Unrestricted net position--the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements--was $7,130,453 at the end of the year. The net position of business-type activities was $1,495,037.

Table 2
Changes in Net Position
(in Thousands)

	2013			
	Governmental Activities	Business-Type Activities	Total	2012
Revenues				
Program revenues				
Fees, fines, and charges	$ 1,633	$ 552	$ 2,185	$ 2,126
Operating grants and contributions	5,945	-	5,945	5,845
Capital grants and contributions	593	-	593	550
General revenues				
Property taxes	7,818	-	7,818	7,028
Other taxes	266	-	266	261
Grants, gifts, and miscellaneous	801	-	801	986
Total Revenues	$ 17,056	$ 552	$ 17,608	$ 16,796
Expenses				
General government	$ 2,774	$ -	$ 2,774	$ 2,397
Public safety	2,241	-	2,241	2,358
Highways and streets	4,911	-	4,911	3,665
Sanitation	225	-	225	561
Human services	4,780	-	4,780	4,137
Health	222	-	222	182
Culture and recreation	179	-	179	139
Conservation of natural resources	672	-	672	666
Interest	55	-	55	23
Landfill	-	697	697	596
Total Expenses	$ 16,059	$ 697	$ 16,756	$ 14,724
Increase (Decrease) Before Transfers	$ 997	$ (145)	$ 852	$ 2,072
Transfers	(39)	39	-	-
Increase (Decrease) in Net Position	$ 958	$ (106)	$ 852	$ 2,072
Net Position - January 1	$ 57,451	$ 1,601	$ 59,052	$ 56,980
Net Position - December 31	$ 58,409	$ 1,495	$ 59,904	$ 59,052

The County's activities increased net position by 1.44 percent ($59,904,527 for 2013 compared to $59,051,820 for 2012).

TOTAL COUNTY REVENUE

Governmental Activities

Revenues for the County's governmental activities (see Table 2) were $17,056,649, while total expenses were $16,059,206, and transfers out were $39,227. This reflects a $958,216 increase in net position for the year ended December 31, 2013.

Business-Type Activities

Revenues of the County's business-type activities (see Table 2) were $552,421, transfers in were $39,227, and expenses were $697,157. This reflects a $105,509 decrease in net position for the year ending December 31, 2013.

Governmental Activities' Expenses

The cost of the County's governmental activities this year was $16,059,206. However, as shown in the Statement of Activities on pages 16 and 17, the amount that taxpayers ultimately financed for these activities through County taxes was $7,887,876 because some of the cost was paid by those who directly benefited from the programs ($1,633,188) or by other governments and organizations that subsidized certain programs with grants and contributions ($6,538,142).

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)

	2013	
	Total Cost of Services	Net Cost of Services
Highways and streets	$ 4,911	$ 653
Human services	4,780	2,550
General government	2,774	2,336
Public safety	2,241	1,874
Conservation of natural resources	672	104
All others	681	371
Totals	$ 16,059	$ 7,888

THE COUNTY'S FUNDS

As the County completed the year, its governmental funds (as presented in the Balance Sheet on pages 18 through 21) reported a combined fund balance of $9,667,754, which is above last year's total of $9,547,109. The governmental funds' change in fund balance (an increase of $120,645 for 2013) represents a 1.26 percent increase in governmental fund balances. Most of the governmental funds' increase is due to increased revenues in the Road and Bridge Special Revenue Fund and the Ditch Special Revenue Fund.

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 $380,475 above the final budget amounts. The major reason for variances of actual expenditures from final budget in this case are the unbudgeted expenditures for transit, the probation relocation, and two years of tax forfeiture costs.

On the other hand, resources available for appropriation were $534,259 above the final budgeted amount. Increased state and federal reimbursements, along with increased tax collection, helped push revenues above expected levels.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2013, the County had $50,091,661 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 $355,860, or 0.72 percent, over last year.

Table 4
Changes in Capital Assets During 2013

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 315,824	$ -	$ -	$ 315,824
Right-of-way	796,083	398	-	796,481
Total capital assets not depreciated	$ 1,111,907	$ 398	$ -	$ 1,112,305

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Buildings	$ 4,833,871	$ 52,514	$ -	$ 4,886,385
Machinery and equipment	6,353,043	275,610	259,629	6,369,024
Infrastructure	58,423,656	1,447,835	-	59,871,491
Total capital assets depreciated	$ 69,610,570	$ 1,775,959	$ 259,629	$ 71,126,900
Less: accumulated depreciation for				
Buildings	$ 2,383,769	$ 117,217	$ -	$ 2,500,986
Machinery and equipment	3,920,776	407,745	259,629	4,068,892
Infrastructure	15,626,098	1,164,598	-	16,790,696
Total accumulated depreciation	$ 21,930,643	$ 1,689,560	$ 259,629	$ 23,360,574
Total capital assets depreciated, net	$ 47,679,927	$ 86,399	$ -	$ 47,766,326
Governmental Activities Capital Assets, Net	$ 48,791,834	$ 86,797	$ -	$ 48,878,631

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
Land improvements	2,363,085	-	-	2,363,085
Machinery and equipment	462,641	438,800	91,960	809,481
Total capital assets depreciated	$ 2,849,426	$ 438,800	$ 91,960	$ 3,196,266
Less: accumulated depreciation for				
Buildings	$ 22,186	$ 790	$ -	$ 22,976
Land improvements	1,800,145	107,618	-	1,907,763
Machinery and equipment	247,010	59,454	90,085	216,379
Total accumulated depreciation	$ 2,069,341	$ 167,862	$ 90,085	$ 2,147,118
Total capital assets depreciated, net	$ 780,085	$ 270,938	$ 1,875	$ 1,049,148
Business-Type Activities Capital Assets, Net	$ 943,967	$ 270,938	$ 1,875	$ 1,213,030

The County’s fiscal year 2013 capital budget called for it to spend $2,063,138 on highway and bridge construction and $366,500 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 $4,559,701, versus $4,434,330 last year--an increase of 2.83 percent--as shown in Table 5.

Table 5
Changes in Outstanding Debt During 2013

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable (fund liquidating the debt)					
G.O. Drainage Crossover Refund Bond 2011 (Ditch)	$ 1,090,000	$ -	$ 160,000	$ 930,000	$ 160,000
Add: unamortized premium	18,442	-	2,601	15,841	-
Total bonds payable	$ 1,108,442	$ -	$ 162,601	$ 945,841	$ 160,000
Loans payable	858,672	94,032	151,712	800,992	130,127
Capital lease	481,178	-	73,864	407,314	76,186
Compensated absences	696,955	60,197	-	757,152	251,138
Governmental Activities Long-Term Liabilities	$ 3,145,247	$ 154,229	$ 388,177	$ 2,911,299	$ 617,451

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Loans payable	$ -	$ 356,640	$ 19,902	$ 336,738	$ 23,303
Estimated liability for landfill closure and postclosure care	1,272,780	20,262	-	1,293,042	-
Compensated absences	16,303	2,319	-	18,622	-
Business-Type Activities Long-Term Liabilities	$ 1,289,083	$ 379,221	$ 19,902	$ 1,648,402	$ 23,303

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 ($2,512,274,400) in the County. The County's outstanding net debt ($4,559,701) is significantly below this state-imposed limit ($75,368,232).

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 2014 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 2014 are budgeted to increase 1.16 percent from 2013.

- Property taxes levied have increased 3.039 percent for 2014.

- In 2013, the Cottonwood County Board voted for the County's human service function to join the newly organized Des Moines Valley Health and Human Services (DVHHS) as of January 1, 2014, along with Cottonwood-Jackson Community Health Services Board and Jackson County Human Services.

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; (507) 831-1342.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT 1

STATEMENT OF NET POSITION
DECEMBER 31, 2013

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and pooled investments	$ 8,675,510	$ 142,367	$ 8,817,877
Receivable - net	3,216,556	39,311	3,255,867
Prepaid items	1,049,529	-	1,049,529
Inventories	305,031	-	305,031
Restricted assets			
Cash and pooled investments	-	1,762,091	1,762,091
Net OPEB asset	85,136	-	85,136
Capital assets			
Non-depreciable capital assets	1,112,305	163,882	1,276,187
Depreciable capital assets - net of accumulated depreciation	47,766,326	1,049,148	48,815,474
Total Assets	**$ 62,210,393**	**$ 3,156,799**	**$ 65,367,192**
Deferred Outflows of Resources			
Deferred amount on refunding	**$ 18,207**	**$ -**	**$ 18,207**
Liabilities			
Accounts payable and other current liabilities	$ 817,916	$ 13,360	$ 831,276
Accrued interest payable	17,757	-	17,757
Unearned revenue	72,138	-	72,138
Long-term liabilities			
Due within one year	617,451	23,303	640,754
Due in more than one year	2,293,848	1,625,099	3,918,947
Total Liabilities	**$ 3,819,110**	**$ 1,661,762**	**$ 5,480,872**
Net Position			
Net investment in capital assets	$ 48,465,129	$ 876,292	$ 49,341,421
Restricted for			
Public safety	314,226	-	314,226
Highways and streets	1,162,819	-	1,162,819
Conservation of natural resources	964,581	-	964,581
Economic development	60,886	-	60,886
Postclosure care	-	469,049	469,049
Other purposes	311,396	-	311,396
Unrestricted	7,130,453	149,696	7,280,149
Total Net Position	**$ 58,409,490**	**$ 1,495,037**	**$ 59,904,527**

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

COTTONWOOD COUNTY
WINDOM, MINNESOTA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013

Functions/Programs	Expenses	Fees, Charges, Fines, and Other
Governmental activities		
General government	$ 2,774,341	$ 276,031
Public safety	2,241,353	135,737
Highways and streets	4,910,842	138,723
Sanitation	224,461	183,666
Human services	4,779,789	485,579
Health	222,161	-
Culture and recreation	178,530	59,624
Conservation of natural resources	672,274	353,828
Economic development	-	-
Interest	55,455	-
Total governmental activities	**$ 16,059,206**	**$ 1,633,188**
Business-type activities		
Landfill	697,157	552,421
Total	**$ 16,756,363**	**$ 2,185,609**

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 position

Net Position - January 1

Net Position - December 31

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

Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Business-Type Activities	Net (Expense) Revenue and Changes in Net Position: Total
$ 162,358	$ -	$ (2,335,952)	$ -	$ (2,335,952)
232,121	-	(1,873,495)	-	(1,873,495)
3,525,897	592,884	(653,338)	-	(653,338)
55,950	-	15,155	-	15,155
1,743,978	-	(2,550,232)	-	(2,550,232)
-	-	(222,161)	-	(222,161)
-	-	(118,906)	-	(118,906)
214,954	-	(103,492)	-	(103,492)
10,000	-	10,000	-	10,000
-	-	(55,455)	-	(55,455)
$ 5,945,258	**$ 592,884**	**$ (7,887,876)**	**$ -**	**$ (7,887,876)**
-	-	-	(144,736)	(144,736)
$ 5,945,258	**$ 592,884**	**$ (7,887,876)**	**$ (144,736)**	**$ (8,032,612)**
		$ 7,817,537	$ -	$ 7,817,537
		59,064	-	59,064
		6,296	-	6,296
		200,899	-	200,899
		441,868	-	441,868
		197,965	-	197,965
		(32,200)	-	(32,200)
		193,890	-	193,890
		(39,227)	39,227	-
		$ 8,846,092	**$ 39,227**	**$ 8,885,319**
		$ 958,216	**$ (105,509)**	**$ 852,707**
		57,451,274	**1,600,546**	**59,051,820**
		$ 58,409,490	**$ 1,495,037**	**$ 59,904,527**

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

COTTONWOOD COUNTY
WINDOM, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013

	General	Road and Bridge
Assets		
Cash and pooled investments	$ 7,207,882	$ 400,555
Petty cash and change funds	3,450	-
Undistributed cash in agency funds	107,867	-
Taxes receivable		
Prior	77,453	-
Special assessments		
Prior	20,921	140
Noncurrent	532,059	-
Accounts receivable	57,738	-
Accrued interest receivable	13,907	-
Loans receivable	153,629	-
Due from other governments	-	1,341,382
Inventories	-	305,031
Prepaid items	-	-
Advances to other funds	211,247	-
Advances to other governments	-	-
Total Assets	**$ 8,386,153**	**$ 2,047,108**

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

EXHIBIT 3

Family Services	Ditch	Building Capital Projects	Total Governmental Funds
$ 3,387	$ 741,066	$ 205,428	$ 8,558,318
-	-	-	3,450
-	5,275	600	113,742
-	-	1,146	78,599
-	62	-	21,123
-	830,873	-	1,362,932
12,287	-	-	70,025
-	-	-	13,907
-	-	-	153,629
158,450	-	-	1,499,832
-	-	-	305,031
1,049,529	-	-	1,049,529
-	-	-	211,247
16,509	-	-	16,509
$ 1,240,162	**$ 1,577,276**	**$ 207,174**	**$ 13,457,873**

COTTONWOOD COUNTY
WINDOM, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013

	General	Road and Bridge
Liabilities, Deferred Inflows of Resources, and Fund Balances		
Liabilities		
Accounts payable	$ 72,394	$ 20,269
Salaries payable	114,955	53,085
Contracts payable	-	189,213
Due to other governments	60,558	-
Unearned revenue	72,138	-
Advances from other funds	-	-
Total Liabilities	**$ 320,045**	**$ 262,567**
Deferred Inflows of Resources		
Unavailable revenue	**$ 637,986**	**$ 1,162,959**
Fund Balances		
Nonspendable		
Inventories	$ -	$ 305,031
Long-term loans receivable	129,033	-
Advances to other funds	211,247	-
Restricted for		
Law library	1,202	-
Recorder's technology fund	68,640	-
Enhanced 911	283,141	-
Permit to carry	31,085	-
Recorder's compliance fund	138,510	-
Election equipment	67,725	-
Low-interest small business loans	60,886	-
Septic/sewer loans	513,931	-
Ditch maintenance and repairs	-	-
Gravel tax	35,319	-
Assigned to		
Capital improvements	415,595	-
Canteen fund	22,081	-
Road and bridge	-	316,551
Human services	-	-
Building projects	-	-
Unassigned	5,449,727	-
Total Fund Balances	**$ 7,428,122**	**$ 621,582**
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	**$ 8,386,153**	**$ 2,047,108**

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

	Family Services	**Ditch**	**Building Capital Projects**	**Total Governmental Funds**
	$ 244,158	$ -	$ -	$ 336,821
	-	-	-	168,040
	-	-	-	189,213
	63,284	-	-	123,842
	-	-	-	72,138
	-	211,247	-	211,247
	$ 307,442	**$ 211,247**	**$ -**	**$ 1,101,301**
	$ 55,792	**$ 830,935**	**$ 1,146**	**$ 2,688,818**
	$ -	$ -	$ -	$ 305,031
	-	-	-	129,033
	-	-	-	211,247
	-	-	-	1,202
	-	-	-	68,640
	-	-	-	283,141
	-	-	-	31,085
	-	-	-	138,510
	-	-	-	67,725
	-	-	-	60,886
	-	-	-	513,931
	-	678,148	-	678,148
	-	-	-	35,319
	-	-	-	415,595
	-	-	-	22,081
	-	-	-	316,551
	876,928	-	-	876,928
	-	-	206,028	206,028
	-	(143,054)	-	5,306,673
	$ 876,928	**$ 535,094**	**$ 206,028**	**$ 9,667,754**
	$ 1,240,162	**$ 1,577,276**	**$ 207,174**	**$ 13,457,873**

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COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT 4

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES DECEMBER 31, 2013

Fund balances - total governmental funds (Exhibit 3)			**$**	**9,667,754**
Amounts reported for governmental activities in the statement of net position are different because:				
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.				48,878,631
Net OPEB assets are not available resources and, therefore, are not reported in the funds.				85,136
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds.				2,688,818
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	$	(930,000)		
Capital leases		(407,314)		
Loans payable		(800,992)		
Compensated absences		(757,152)		
Accrued interest payable		(17,757)		
Unamortized premium on general obligation refunding bonds		(15,841)		
Deferred amount on refunding bonds		18,207		(2,910,849)
Net Position of Governmental Activities (Exhibit 1)			**$**	**58,409,490**

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

COTTONWOOD COUNTY
WINDOM, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	General	Road and Bridge
Revenues		
Taxes	$ 4,121,011	$ 1,765,224
Special assessments	326,372	-
Licenses and permits	23,564	-
Intergovernmental	1,178,823	3,415,682
Charges for services	192,135	39,562
Fines and forfeits	8,006	-
Investment earnings	(13,985)	-
Miscellaneous	309,728	86,558
Total Revenues	**$ 6,145,654**	**$ 5,307,026**
Expenditures		
Current		
General government	$ 2,556,288	$ -
Public safety	2,167,934	-
Highways and streets	-	4,708,562
Sanitation	224,461	-
Human services	-	-
Health	19,063	-
Culture and recreation	178,315	-
Conservation of natural resources	437,235	-
Intergovernmental	201,369	346,790
Debt service		
Principal	151,712	73,864
Interest	9,297	15,044
Total Expenditures	**$ 5,945,674**	**$ 5,144,260**
Excess of Revenues Over (Under) Expenditures	**$ 199,980**	**$ 162,766**
Other Financing Sources (Uses)		
Transfers in	$ -	$ 625,000
Transfers out	(664,227)	-
Loans issued	94,032	-
Compensation for loss of capital assets	72,638	-
Proceeds from sale of assets	-	12,603
Total Other Financing Sources (Uses)	**$ (497,557)**	**$ 637,603**
Net Change in Fund Balances	**$ (297,577)**	**$ 800,369**
Fund Balances - January 1	**7,725,699**	**(103,818)**
Increase (decrease) in inventories	**-**	**(74,969)**
Fund Balances - December 31	**$ 7,428,122**	**$ 621,582**

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

EXHIBIT 5

Family Services	Ditch	Building Capital Projects	Total Governmental Funds
$ 2,160,800	$ -	$ 49,236	$ 8,096,271
-	500,367	-	826,739
-	-	-	23,564
1,692,642	-	-	6,287,147
65,220	-	-	296,917
-	-	-	8,006
-	-	-	(13,985)
420,359	6,251	71,582	894,478
$ 4,339,021	**$ 506,618**	**$ 120,818**	**$ 16,419,137**
$ -	$ -	$ 95,146	$ 2,651,434
-	-	-	2,167,934
-	-	-	4,708,562
-	-	-	224,461
4,758,889	-	-	4,758,889
-	-	-	19,063
-	-	-	178,315
-	238,657	-	675,892
-	-	-	548,159
-	160,000	-	385,576
-	20,943	-	45,284
$ 4,758,889	**$ 419,600**	**$ 95,146**	**$ 16,363,569**
$ (419,868)	**$ 87,018**	**$ 25,672**	**$ 55,568**
$ -	$ -	$ -	$ 625,000
-	-	-	(664,227)
-	-	-	94,032
-	-	-	72,638
-	-	-	12,603
$ -	**$ -**	**$ -**	**$ 140,046**
$ (419,868)	**$ 87,018**	**$ 25,672**	**$ 195,614**
1,296,796	**448,076**	**180,356**	**9,547,109**
-	**-**	**-**	**(74,969)**
$ 876,928	**$ 535,094**	**$ 206,028**	**$ 9,667,754**

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, 2013

Net change in fund balances - total governmental funds (Exhibit 5)		**$ 195,614**
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 inflows of resources - December 31	$ 2,688,818	
Deferred inflows of resources - January 1	(2,136,547)	552,271
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay expenditures	$ 1,776,357	
Current year depreciation	(1,689,560)	86,797
The issuing of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued; whereas, these amounts are deferred and amortized in the statement of activities.		
Issuance of new debt - loans		(94,032)
Principal payments		
General obligation bonds	$ 160,000	
Capital lease	73,864	
Loans payable	151,712	385,576
Amortization of premium and deferred amount of refunding		(1,952)
Deferred charges not previously expensed		(27,058)
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	$ (8,219)	
Change in compensated absences payable	(60,197)	
Change in net OPEB obligation	4,385	
Change in inventories	(74,969)	(139,000)
Change in Net Position of Governmental Activities (Exhibit 2)		**$ 958,216**

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

PROPRIETARY FUND

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COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT 7

STATEMENT OF FUND NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2013

		Landfill Enterprise Fund
Assets		
Current assets		
Cash and pooled investments	$	142,367
Accounts receivable		39,311
Restricted assets		
Cash and pooled investments		1,762,091
Total current assets	**$**	**1,943,769**
Noncurrent assets		
Capital assets		
Nondepreciable	$	163,882
Depreciable - net		1,049,148
Total noncurrent assets	**$**	**1,213,030**
Total Assets	**$**	**3,156,799**
Liabilities		
Current liabilities		
Accounts payable	$	7,563
Salaries payable		5,797
Loans payable - current		23,303
Total current liabilities	**$**	**36,663**
Noncurrent liabilities		
Loans payable - long-term	$	313,435
Compensated absences payable - long-term		18,622
Estimated liability for landfill closure/postclosure		1,293,042
Total noncurrent liabilities	**$**	**1,625,099**
Total Liabilities	**$**	**1,661,762**
Net Position		
Net investment in capital assets	$	876,292
Restricted for postclosure care		469,049
Unrestricted		149,696
Total Net Position	**$**	**1,495,037**

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

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT 8

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2013

	Landfill Enterprise Fund	
Operating Revenues		
Charges for services	$	529,529
Licenses and permits		92
Miscellaneous		22,800
Total Operating Revenues	**$**	**552,421**
Operating Expenses		
Personal services	$	167,895
Professional services		24,432
Other services and charges		305,544
Utilities		8,475
Depreciation		167,862
Landfill closure and postclosure costs		20,262
Total Operating Expenses	**$**	**694,470**
Operating Income (Loss)	**$**	**(142,049)**
Nonoperating Expense		
Interest expense		2,687
Income (Loss) Before Transfers	**$**	**(144,736)**
Transfers in		39,227
Change in Net Position	**$**	**(105,509)**
Net Position - January 1		**1,600,546**
Net Position - December 31	**$**	**1,495,037**

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

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT 9

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2013
Increase (Decrease) in Cash and Cash Equivalents

	Landfill Enterprise Fund
Cash Flows from Operating Activities	
Receipts from customers and users	$ 547,387
Payments to suppliers	(353,128)
Payments to employees	(163,444)
Net cash provided by (used in) operating activities	**$ 30,815**
Cash Flows from Noncapital Financing Activities	
Transfers in	**$ 39,227**
Cash Flows from Capital and Related Financing Activities	
Interest expense	$ (2,687)
Loan proceeds	356,640
Payments on loan	(19,902)
Purchase of capital assets	(438,800)
Net cash provided by (used in) capital and related financing activities	**$ (104,749)**
Net Increase (Decrease) in Cash and Cash Equivalents	**$ (34,707)**
Cash and Cash Equivalents - January 1	**1,939,165**
Cash and Cash Equivalents - December 31	**$ 1,904,458**
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position - Exhibit 7	
Cash and pooled investments	$ 142,367
Restricted cash and pooled investments	1,762,091
Total Cash and Cash Equivalents - December 31	**$ 1,904,458**

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

EXHIBIT 9
(Continued)

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2013
Increase (Decrease) in Cash and Cash Equivalents

	Landfill Enterprise Fund
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	**$ (142,049)**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	$ 167,862
Loss on disposal of capital asset	1,875
Landfill closure and postclosure costs	20,262
(Increase) decrease in accounts receivable	(5,084)
(Increase) decrease in due from other governments	50
Increase (decrease) in accounts payable	973
Increase (decrease) in salaries payable	2,132
Increase (decrease) in contracts payable	(17,525)
Increase (decrease) in compensated absences payable	2,319
Total adjustments	**$ 172,864**
Net Cash Provided by (Used in) Operating Activities	**$ 30,815**

FIDUCIARY FUNDS

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COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2013

	Investment Trust	Agency
Assets		
Cash and pooled investments	$ -	$ 192,275
Prepaid items	104,506	-
Total Assets	**$ 104,506**	**$ 192,275**
Liabilities		
Due to other governments	-	**$ 192,275**
Net Position		
Net position, held in trust for pool participant	**$ 104,506**	

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

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT 11

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Investment Trust
Additions	
Contributions from participants	$ 108,248
Deductions	
Distributions to participants	96,271
Change in Net Position	**$ 11,977**
Net Position - January 1	**92,529**
Net Position - December 31	**$ 104,506**

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

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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, 2013. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

Changes in Accounting Principles

During 2013, the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statements 61 and 65. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, modifies and clarifies the requirements for inclusion of component units and their presentation in the primary government's financial statements. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items previously reported as assets and liabilities. See Note 1.D.10. for additional information regarding the County's deferred inflows/outflows of resources.

Restatements of December 31, 2012, net position or fund balance were not required as a result of adopting these changes in accounting principles.

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.

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

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 position 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.

In the government-wide statement of net position, 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 position is reported in three parts: (1) net investment in capital assets, (2) restricted, and (3) unrestricted. 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.

1. Summary of Significant Accounting Policies

   B. Basic Financial Statements (Continued)

      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.

         The County reports the following major governmental funds:

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

            The Road and Bridge Special Revenue Fund is used to account for 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.

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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.

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.

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. 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.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position 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, 2013, 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 2013 were $118,831.

1. Summary of Significant Accounting Policies

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

      2. Deposits and Investments (Continued)

         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."

         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.

1. Summary of Significant Accounting Policies

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

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 position because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

7. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

1. Summary of Significant Accounting Policies

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

7. Capital Assets (Continued)

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:

Assets	Years
Buildings	25 - 75
Building improvements	25
Land improvements	10
Public domain infrastructure	
Bridges	75
Roads	50
Machinery and equipment	3 - 15

8. Compensated Absences

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

1. Summary of Significant Accounting Policies

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

9. 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 position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental funds recognize bond premiums and discounts 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.

10. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. The County has only one type of item, which arises only under an accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, deferred amount on refunding, is being amortized over the remaining life of the refunding bonds as part of interest expense. No deferred outflows of resources affect the governmental funds financial statements in the current year.

1. Summary of Significant Accounting Policies

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

10. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

11. Classification of Net Position

Net position in the government-wide and proprietary fund financial statements is classified in the following components:

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

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

Unrestricted - the portion of net position not included in the net investment in capital assets or restricted components.

12. Classification of Fund Balances

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.

1. Summary of Significant Accounting Policies

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

12. Classification of Fund Balances (Continued)

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.

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

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

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

Committed - 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 - 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.

1. Summary of Significant Accounting Policies

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

12. Classification of Fund Balances (Continued)

Unassigned - the residual classification for the General Fund 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

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, 8 of 87 drainage systems have deficit fund balances at December 31, 2013.

2. Stewardship, Compliance, and Accountability

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	$ 754,659
Account balance deficits	(235,373)
Total	$ 519,286

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 $535,094 when reported on the modified accrual basis.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net position	
Governmental activities	
Cash and pooled investments	$ 8,675,510
Business-type activities	
Cash and pooled investments	142,367
Cash and pooled investments - restricted assets	1,762,091
Statement of fiduciary net position	
Agency funds	
Cash and pooled investments	192,275
Total Cash and Investments	$ 10,772,243

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. The County's deposits were exposed to custodial credit risk in the amount of $444,500 due to having deposits which were not secured by insurance, collateral, or bond.

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.

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 and other credit risk requirements set by state statute. The County's investments were exposed to credit risk in the amount of $50,000 due to the purchase of multiple negotiable certificates of deposit from the same bank.

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, 2013, none of the County's investments were subject to custodial credit risk.

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, 2013, and information relating to potential investment risks:

	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying	
Investment Type	Credit Rating	Rating Agency	Over 5% of Portfolio	Maturity Date	(Fair) Value	
U.S. government agency securities (1)						
Federal National Mortgage Association note	AA+	S&P		12/30/2020	$	99,433
Federal National Mortgage Association note	AA+	S&P		06/20/2028		89,443
Total Federal National Mortgage Association notes			N/A		$	188,876
Federal Home Loan Bank bond	AA+	S&P		04/25/2023	$	110,629
Federal Home Loan Bank bond	AA+	S&P		06/13/2023		91,046
Federal Home Loan Bank bond	AA+	S&P		06/27/2023		97,561
Total Federal Home Loan Bank bonds			N/A		$	299,236
Federal Home Loan Mortgage Corporation note	AA+	S&P		11/27/2023	$	97,749
Federal Home Loan Mortgage Corporation note	AA+	S&P		12/27/2023		98,147
Total Federal Home Loan Mortgage Corporation notes			N/A		$	195,896
Negotiable certificates of deposit with brokers	N/A	N/A	N/A	Various	$	6,223,606
Total investments					$	6,907,614
Checking						1,739,179
Savings						1,025,000
Petty cash and change funds						3,450
Certificates of deposit						1,097,000
Total Cash and Investments					$	10,772,243

(1) - These securities have step provisions, which could result in the notes being called prior to maturity.
N/A - Not Applicable
S&P - Standard & Poor's

3. Detailed Notes on All Funds

   A. Assets (Continued)

      2. Receivables

Receivables as of December 31, 2013, 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	$ 78,599	$ -
Special assessments - prior	21,123	-
Special assessments - noncurrent	1,362,932	1,052,993
Accounts	70,025	-
Interest	13,907	-
Loans	153,629	145,070
Due from other governments	1,499,832	-
Advance from other governments	16,509	16,509
Total Governmental Activities	$ 3,216,556	$ 1,214,572
Business-Type Activities		
Accounts	$ 39,311	$ -

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. On March 26, 2013, the County Board approved the issuance of a $25,000 loan to the Windom Theater to be repaid at $430 per month at 1.25 percent interest for five years. Loan payments may also be reloaned to other businesses. At December 31, 2013, the County has $60,886 restricted for low-interest small business loans.

In 2012, Cottonwood County agreed to loan Southwest Mental Health Center $131,000 at two percent interest to help construct a new administrative building. Funds were issued to the Southwest Mental Health Center on May 23, 2013. At December 31, 2013, the outstanding loan balance was $129,629.

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Prepaid Item

At December 31, 2013, the Family Service Fund is reporting a prepaid item of $1,049,529. A payment to Des Moines Valley Health and Human Services was made on December 31, 2013. This payment was not due until January 1, 2014, for the newly organized entity.

4. Capital Assets

Capital asset activity for the year ended December 31, 2013, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 315,824	$ -	$ -	$ 315,824
Right-of-way	796,083	398	-	796,481
Total capital assets not depreciated	$ 1,111,907	$ 398	$ -	$ 1,112,305
Capital assets depreciated				
Buildings	$ 4,833,871	$ 52,514	$ -	$ 4,886,385
Machinery and equipment	6,353,043	275,610	259,629	6,369,024
Infrastructure	58,423,656	1,447,835	-	59,871,491
Total capital assets depreciated	$ 69,610,570	$ 1,775,959	$ 259,629	$ 71,126,900
Less: accumulated depreciation for				
Buildings	$ 2,383,769	$ 117,217	$ -	$ 2,500,986
Machinery and equipment	3,920,776	407,745	259,629	4,068,892
Infrastructure	15,626,098	1,164,598	-	16,790,696
Total accumulated depreciation	$ 21,930,643	$ 1,689,560	$ 259,629	$ 23,360,574
Total capital assets depreciated, net	$ 47,679,927	$ 86,399	$ -	$ 47,766,326
Governmental Activities Capital Assets, Net	$ 48,791,834	$ 86,797	$ -	$ 48,878,631

3. Detailed Notes on All Funds

A. Assets

4. 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
Land improvements	2,363,085	-	-	2,363,085
Machinery and equipment	462,641	438,800	91,960	809,481
Total capital assets depreciated	$ 2,849,426	$ 438,800	$ 91,960	$ 3,196,266
Less: accumulated depreciation for				
Buildings	$ 22,186	$ 790	$ -	$ 22,976
Land improvements	1,800,145	107,618	-	1,907,763
Machinery and equipment	247,010	59,454	90,085	216,379
Total accumulated depreciation	$ 2,069,341	$ 167,862	$ 90,085	$ 2,147,118
Total capital assets depreciated, net	$ 780,085	$ 270,938	$ 1,875	$ 1,049,148
Business-Type Activities Capital Assets, Net	$ 943,967	$ 270,938	$ 1,875	$ 1,213,030

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

Governmental Activities	
General government	$ 60,401
Public safety	106,479
Highways and streets, including depreciation of infrastructure assets	1,504,896
Human services	15,840
Health	1,729
Culture and recreation	215
Total Depreciation Expense - Governmental Activities	$ 1,689,560
Business-Type Activities	
Landfill	$ 167,862

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2013, is as follows:

1. Advances To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Ditch	$ 211,247

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.

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2013, consisted of the following:

Transfers to Road and Bridge Fund from General Fund	$ 625,000	Provide funds for operations
Transfers to Landfill Fund from General Fund	39,227	Interest distribution
Total Interfund Transfers	$ 664,227	

C. Liabilities

1. Payables

Payables at December 31, 2013, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	$ 336,821	$ 7,563
Salaries	168,040	5,797
Contracts	189,213	-
Due to other governments	123,842	-
Total Payables	$ 817,916	$ 13,360

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Construction Commitments

The County has an active construction project as of December 31, 2013. The project includes the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Roads and bridges	$ 173,874	$ 23,231

3. Other Postemployment Benefits (OPEB)

Elected Officials' Benefits

Elected County officials and their dependents and surviving spouses are entitled to one year of paid health insurance for every two years of service to the County. There is no maximum number of years for officials elected prior to 1995. Those elected after 1995 are restricted to a maximum of six years of coverage and, as of February 10, 2004, the maximum was reduced to four years. As of January 1, 2004, the maximum monthly contribution was set at $720. This post-service benefit is funded on a pay-as-you-go basis. The County had four elected officials who were eligible for this benefit in 2013. The cost for this program totaled $30,654 in 2013.

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 $13,469 for 2013.

3. Detailed Notes on All Funds

C. Liabilities

3. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation

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

ARC	$ 37,433
Interest on net OPEB obligation (asset)	(808)
Adjustment to ARC	3,113
Annual OPEB cost (expense)	$ 39,738
Contributions made	(44,123)
Increase (decrease) in net OPEB obligation	$ (4,385)
Net OPEB Obligation (Asset) - January 1	(80,751)
Net OPEB Obligation (Asset) - December 31	$ (85,136)

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, 2011, 2012, and 2013, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation (Asset)
December 31, 2011	$ 38,882	$ 55,166	141.9%	$ (67,018)
December 31, 2012	39,347	53,080	134.9	(80,751)
December 31, 2013	39,738	44,123	111.0	(85,136)

3. Detailed Notes on All Funds

C. Liabilities

3. Other Postemployment Benefits (OPEB) (Continued)

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.

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.

3. Detailed Notes on All Funds

C. Liabilities

3. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

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, 2013, was 24 years.

4. Capital Lease

The County has entered into two capital lease agreements to finance equipment for the Highway Department. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The leases are as follows at December 31, 2013:

Capital Lease	Final Maturity	Installment Amount	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2013
2012 Case 1150K Dozer	2016	$ 28,172	3.20	$ 156,285	$ 79,310
2012 John Deere Motor Graders	2019	60,736	3.05	377,077	328,004
Total Capital Lease Payable					$ 407,314

3. Detailed Notes on All Funds

C. Liabilities

4. Capital Lease (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2013, were as follows:

Year Ending December 31	Governmental Activities
2014	$ 88,907
2015	88,908
2016	88,907
2017	60,736
2018	60,736
2019	60,736
Total minimum lease payments	$ 448,930
Less: amount representing interest	(41,616)
Present Value of Minimum Lease Payments	$ 407,314

5. Long-Term Debt

Governmental Activities

Bonds Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2013
Special assessment bonds with government commitment 2011 G.O. Drainage Refunding Bonds	2020	$105,000 - $160,000	2.0375	$ 1,090,000	$ 930,000
Add: unamortized premium					15,841
Total Governmental Activities, Net					$ 945,841

3. Detailed Notes on All Funds

C. Liabilities

5. 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. Beginning in 1998, 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. 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.

6. Debt Service Requirements

Debt service requirements at December 31, 2013, were as follows:

Governmental Activities

Year Ending	Special Assessment Bonds		Loans Payable	
December 31	Principal	Interest	Principal	Interest
2014	$ 160,000	$ 17,317	$ 130,127	$ 7,326
2015	160,000	14,118	110,912	5,653
2016	160,000	10,917	112,741	4,067
2017	120,000	8,118	69,862	2,556
2018	115,000	5,768	48,605	1,863
2019 - 2023	215,000	4,671	126,147	2,788
2024 - 2025	-	-	2,708	-
Total	$ 930,000	$ 60,909	$ 601,102	$ 24,253

Clean water loans in the amount of $199,890 are not included in the debt service requirements because a fixed repayment schedule is not available.

3. Detailed Notes on All Funds

C. Liabilities

6. Debt Service Requirements (Continued)

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 were used to pay the refunded bonds on their call date of February 1, 2012.

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 position as a deferred outflow of resources, is being charged to operations 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.

Business-Type Activities

Loans Payable

In 2013, the Landfill Enterprise Fund entered into a loan agreement with United Prairie Bank to purchase a compactor. The original loan amount of $356,640, is to be paid quarterly, with a balloon payment on October 1, 2018. The annual interest rate on the loan is 2.95 percent.

Year Ending	Loans Payable	
December 31	Principal	Interest
2014	$ 23,303	$ 7,768
2015	31,935	9,492
2016	32,953	8,475
2017	34,002	7,425
2018	214,545	6,359
Total	$ 336,738	$ 39,519

3. Detailed Notes on All Funds

C. Liabilities (Continued)

7. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2013, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable (fund liquidating the debt)					
G.O. Drainage Crossover Refund Bond 2011 (Ditch)	$ 1,090,000	$ -	$ 160,000	$ 930,000	$ 160,000
Add: unamortized premium	18,442	-	2,601	15,841	-
Total bonds payable	$ 1,108,442	$ -	$ 162,601	$ 945,841	$ 160,000
Loans payable	858,672	94,032	151,712	800,992	130,127
Capital lease	481,178	-	73,864	407,314	76,186
Compensated absences	696,955	60,197	-	757,152	251,138
Governmental Activities Long-Term Liabilities	$ 3,145,247	$ 154,229	$ 388,177	$ 2,911,299	$ 617,451

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Loans payable	$ -	$ 356,640	$ 19,902	$ 336,738	$ 23,303
Estimated liability for landfill closure and postclosure care	1,272,780	20,262	-	1,293,042	-
Compensated absences	16,303	2,319	-	18,622	-
Business-Type Activities Long-Term Liabilities	$ 1,289,083	$ 379,221	$ 19,902	$ 1,648,402	$ 23,303

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 $1,293,042 landfill closure and postclosure care liability at December 31, 2013, represents the cumulative amount reported to date based on the use of 67 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of $644,477 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2013.

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, 2013, the County has $1,762,091 in assets restricted 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.

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 $470,000 per claim in 2013 and $480,000 per claim in 2014. 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.

6. <u>Employee Retirement Systems and Pension Plans</u>

   A. <u>Defined Benefit Plans</u>

      <u>Plan Description</u> (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).

      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 highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

      Two methods are used to compute benefits for General Employees Retirement 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 remaining year. 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 remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For

6. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For 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; 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

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 2013:

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, 2013, 2012, and 2011, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2013	2012	2011
General Employees Retirement Fund	$ 272,366	$ 257,574	$ 262,984
Public Employees Police and Fire Fund	77,552	77,395	78,044
Public Employees Correctional Fund	33,247	34,771	34,344

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

B. Defined Contribution Plan

Five 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.

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, 2013, were:

	Employee	Employer
Contribution amount	$ 5,399	$ 5,399
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.

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

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 2013, Cottonwood County contributed $201,369 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.

In 2013, Cottonwood and Jackson Counties entered into a joint powers agreement, forming Des Moines Valley Health and Human Services, which will be comprised of the Cottonwood-Jackson Community Health Services Board and the Family Services Departments of the two counties as of January 1, 2014.

Cottonwood County Family Services Collaborative

The Cottonwood County Family Services Collaborative was established in 2000 under the authority of Minn. Stat. §§ 124D.23 and 245.491. The Collaborative includes Cottonwood County Family Service Agency, Cottonwood-Jackson Community Health Service, Cottonwood County Corrections, Southwestern Mental Health Center, Independent School District 177, Independent School District 173, Independent School District 2884, Independent School District 991, Western Community Action Inc./Head Start, and Cottonwood County. The primary function of the Collaborative is to create opportunities to enhance family strengths and support through service coordination and access to informal communication.

The Collaborative is financed primarily by state grants. Control of the Collaborative is vested in the Governing Board consisting of 11 members. The Governing Board is composed of one member from each Executive Committee Organization. The Cottonwood County Family Service Agency acts as the fiscal agent for the Collaborative. During 2013, Cottonwood County provided $500 in funding to the Collaborative Integrated Fund.

7. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Cottonwood County Family Services Collaborative (Continued)

Financial information can be obtained by contacting Cottonwood County Family Service Agency (effective January 1, 2014, the Cottonwood County Family Service Agency joined the Des Moines Valley Health and Human Services).

Red Rock Rural Water System

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

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

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

Southwest Regional Solid Waste Commission

The County has entered into a joint powers agreement with Jackson, Lac qui Parle, Lincoln, Lyon, Murray, Nobles, Pipestone, Redwood, Renville, Rock, and Yellow Medicine 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.

7. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwest Regional Solid Waste Commission (Continued)

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 and further costs shall be based on a per capita share. The current assessment is $1,500.

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 N. Rebecca Street, P. O. Box 29, Ivanhoe, Minnesota 56142.

Southwestern Minnesota Adult Mental Health Consortium Board

In November 1997, the Southwestern Minnesota Adult Mental Health Consortium Board was created under the authority of Minn. Stat. § 471.59. Presently its members include Big Stone, Chippewa, Cottonwood, Jackson, Kandiyohi, Lac qui Parle, McLeod, Meeker, Nobles, Renville, Swift, and Yellow Medicine Counties; and Southwest Health and Human Services, representing Lincoln, Lyon, Murray, Pipestone, Redwood, and Rock Counties. The Board is headquartered in Windom, Minnesota, where Cottonwood County acts as fiscal host.

The 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.

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.

7. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Southwestern Mental Health Center, Inc.

The Southwestern Mental Health Center, Inc., is a private, non-profit agency established in 1959 by Cottonwood, Jackson, Nobles, Pipestone, and Rock Counties in southwest Minnesota. It was formed for the purpose of providing mental health services and programs to the residents of these counties.

For 2013, Cottonwood County paid a total of $310,838 to Southwestern Mental Health Center, Inc., for mental health services. Complete financial statements for the Southwestern Mental Health Center, Inc., can be obtained at 216 E. Luverne Street, Luverne, Minnesota 56156.

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 2013, Cottonwood County paid $2,000 to the Board.

Southwest Minnesota Regional Emergency Communications Board

The Southwest Minnesota Regional Emergency Communications Board Joint Powers Board (original name of Southwest Minnesota Regional Radio Board) was established April 22, 2008, between Cottonwood County, the City of Marshall, the City of Worthington, and 12 other counties under authority of Minn. Stat. §§ 471.59 and 403.39. The purpose of the agreement is to formulate a regional radio board to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER).

Control is vested in a Joint Powers Board consisting of one County Commissioner and one City Council member for each party to the agreement. The members representing counties and cities are appointed by their respective governing bodies for the membership of that governing body. In addition, voting members of the Board include a member of the Southwest Minnesota Regional Advisory Committee, a member of the Southwest Minnesota Regional Radio System User Committee, and a member of the Southwest Minnesota Owners and Operators Committee.

7. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwest Minnesota Regional Emergency Communications Board (Continued)

Financing is provided by the appropriations from member parties and by state and federal grants. During 2013, Cottonwood County contributed $2,045 to the Joint Powers Board.

Southern Prairie Health Purchasing Alliance

Cottonwood County entered into a joint powers agreement on June 26, 2012, with Chippewa, Jackson, Kandiyohi, Lincoln, Lyon, Murray, Nobles, Redwood, Rock, Swift, and Yellow Medicine Counties to establish the Southern Prairie Health Purchasing Alliance pursuant to the provisions of Minn. Stat. § 471.59. The purpose of the Alliance is to plan, formulate, operate, and govern a rural care delivery system to improve the health and quality of life of the citizens of member counties. The Joint Powers Board is composed of one representative from each county.

Southwest Minnesota Private Industry Council, Inc.

The Southwest Minnesota Private Industry Council, Inc., (SW MN PIC) is a private nonprofit corporation which was created through a Joint Powers Agreement on October 1, 1983, and began operations in 1985 under the Job Training Partnership Act (JTPA) authorized by Congress to administer and operate job training programs in a 14-county area of Southwestern Minnesota. These counties include Big Stone, Chippewa, Cottonwood, Jackson, Lac qui Parle, Lincoln, Lyon, Murray, Nobles, Pipestone, Redwood, Rock, Swift, and Yellow Medicine.

SW MN PIC is governed by the Chief Elected Official Board which is composed of one representative from each member County. Cottonwood County provided $1,420 to this organization in 2013.

Separate financial information can be obtained from the Lyon County Government Center, 607 West Main Street, Marshall, Minnesota 56258.

7. Summary of Significant Contingencies and Other Items

   B. Joint Ventures (Continued)

      Retired and Senior Volunteer Program of Southwest Minnesota (SW-RSVP)

      Cottonwood County, in conjunction with Lincoln, Murray, Nobles, Redwood, and Rock Counties and the Southwest Regional Development Commission, pursuant to Minn. Stat. § 471.59, have formed an agreement to coordinate the delivery of volunteer services to non-profit community service entities and local units of government meeting the guidelines for receiving volunteer services under the authority of the counties. The Board comprises one voting member from each participating County and one voting member of the SW-RSVP Advisory Council. In 2013, the County made contributions of $16,596 to the SW-RSVP.

   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 $3,904 to the Project.

      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. The Board consists of County Commissioners and members of the Soil and Water Conservation Districts. During the year, the County made $2,868 in contributions to the GBERBA.

7. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Minnesota River Board

The Minnesota River Board (formerly the Minnesota River Basin Joint Powers Board) was established July 12, 1995, by an agreement between Cottonwood County and 37 other counties. According to the latest information available, 38 other counties are members under this agreement. The agreement was made to promote orderly water quality improvement and management of the Minnesota River Watershed. Each county is responsible for its proportionate share of the administrative budget and for its share of benefits from any special project.

In the event of termination of the agreement, all property, real and personal, held by the Joint Powers Board shall be distributed by resolution of the policy committee to best accomplish the continuing purpose of the project.

Control is vested in an executive committee of one executive director and four officers elected from the membership of the Joint Powers Board, consisting of one representative from one of the member County Board of Commissioners included in this agreement. During 2013, Cottonwood County contributed $446 to the Joint Powers Board.

Complete financial statements for the Minnesota River Board can be obtained from its administrative office at 184 Trafton Science Center, Minnesota State University at Mankato, Mankato, Minnesota 56001.

Redwood-Cottonwood Rivers Control Area

The Redwood-Cottonwood Rivers Control Area (RCRCA) works to improve water quality, reduce erosion, and enhance recreational opportunities by providing education, outreach, monitoring, and technical assistance within the boundaries of the watersheds of the Redwood and Cottonwood Rivers for the participating counties. RCRCA consists of Brown, Cottonwood, Lincoln, Lyon, Murray, Pipestone, Redwood, and Yellow Medicine Counties. During the year, the County made payments of $7,440 to the RCRCA.

7. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Heron Lake Watershed District

The Heron Lake Watershed District was established to protect and improve water resources within the watershed border. The County Board is responsible for appointing two members of the Board of Managers for the Heron Lake Watershed District, but the County's responsibility does not extend beyond making the appointments.

Region Five - Southwest Minnesota Homeland Security Emergency Management Organization

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

Minnesota Criminal Justice Data Communications Network

The Minnesota Criminal Justice Data Communications Network Joint Powers Agreement exists to create access for the County Sheriff and County Attorney to systems and tools available from the State of Minnesota, Department of Public Safety, and the Bureau of Criminal Apprehension to carry out criminal justice. During the year, the County made no payments to the joint powers.

Sentence to Service

Cottonwood County, in conjunction with other local governments, participates in the State of Minnesota's Sentence to Serve (STS) program. STS is a project of the State Department of Administration's Strive Toward Excellence in Performance (STEP) program. STEP's goal is a statewide effort to make positive improvements in public services. It gives the courts an alternative to jail or fines for the nonviolent offenders who can work on a variety of community or state projects. Private funding, funds from various foundations and initiative funds, as well as the Departments of Corrections and Natural Resources, provide the funds needed to operate the STS program. Although the County has no operational or financial control over the STS program, Cottonwood County budgets for a percentage of this program.

7. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

South Central Minnesota County Comprehensive Water Planning Project

The South Central Minnesota County Comprehensive Water Planning Project was established to provide regional water quality to Minnesota River Basin member counties. The project involves Blue Earth, Brown, Cottonwood, Faribault, Freeborn, Jackson, Le Sueur, Martin, Nicollet, Sibley, Steele, Waseca, and Watonwan Counties. The County did not contribute to the Project in 2013.

Southwest Minnesota Immunization Information Connection

The Southwest Minnesota Immunization Information Connection (SW-MIIC) Joint Powers Board promotes an implementation and maintenance of a regional immunization information system to ensure age-appropriate immunizations through complete and accurate records. The County did not contribute to the SW-MIIC during 2013.

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 2013.

E. Subsequent Events

During 2013, the Cottonwood County Board voted for the County's human service function to join the newly organized Des Moines Valley Health and Human Services (DVHHS) as of January 1, 2014, along with Cottonwood-Jackson Community Health Service Board and Jackson County Human Services.

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, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 3,958,554	$ 3,958,554	$ 4,121,011	$ 162,457
Special assessments	193,000	193,000	326,372	133,372
Licenses and permits	24,560	24,560	23,564	(996)
Intergovernmental	925,831	925,831	1,178,823	252,992
Charges for services	172,745	172,745	192,135	19,390
Fines and forfeits	11,500	11,500	8,006	(3,494)
Investment earnings	190,400	190,400	(13,985)	(204,385)
Miscellaneous	134,805	134,805	309,728	174,923
Total Revenues	**$ 5,611,395**	**$ 5,611,395**	**$ 6,145,654**	**$ 534,259**
Expenditures				
Current				
General government				
Commissioners	$ 298,679	$ 298,679	$ 334,206	$ (35,527)
Courts	23,650	23,650	38,041	(14,391)
Law library	6,500	6,500	16,350	(9,850)
Auditor/treasurer	494,553	494,553	492,832	1,721
Assessor	361,246	361,246	325,780	35,466
Office of technology	17,000	97,000	73,280	23,720
Elections	75,890	75,890	70,137	5,753
Attorney	292,995	292,995	281,078	11,917
Recorder	186,594	186,594	198,929	(12,335)
Building and plant	149,622	149,622	152,042	(2,420)
Veterans service officer	96,405	96,405	99,488	(3,083)
Transit	-	-	42,040	(42,040)
Other general government	214,336	134,036	432,085	(298,049)
Total general government	**$ 2,217,470**	**$ 2,217,170**	**$ 2,556,288**	**$ (339,118)**
Public safety				
Sheriff	$ 1,066,136	$ 1,066,136	$ 1,031,245	$ 34,891
Emergency services	83,440	83,440	64,937	18,503
Coroner	21,600	21,600	21,045	555
Safety program	1,500	8,710	8,878	(168)
Jail	900,685	900,685	871,048	29,637
Probation and parole	116,807	116,807	170,781	(53,974)
Total public safety	**$ 2,190,168**	**$ 2,197,378**	**$ 2,167,934**	**$ 29,444**
Sanitation				
Recycling	**$ 200,881**	**$ 202,881**	**$ 224,461**	**$ (21,580)**
Health				
Community health	**$ 13,108**	**$ 13,108**	**$ 19,063**	**$ (5,955)**

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, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Culture and recreation				
Parks	$ 63,264	$ 82,364	$ 108,878	$ (26,514)
Wayside rest	12,470	12,470	12,470	-
Regional library	51,270	51,270	56,967	(5,697)
Total culture and recreation	**$ 127,004**	**$ 146,104**	**$ 178,315**	**$ (32,211)**
Conservation of natural resources				
Extension	$ 130,967	$ 130,967	$ 121,531	$ 9,436
Soil and water conservation	99,800	99,800	96,878	2,922
Water planning	134,668	134,668	99,726	34,942
Water quality loan program	-	-	4,245	(4,245)
Environmental services	102,858	102,858	114,855	(11,997)
Total conservation of natural resources	**$ 468,293**	**$ 468,293**	**$ 437,235**	**$ 31,058**
Intergovernmental				
Health	**$ 176,369**	**$ 176,369**	**$ 201,369**	**$ (25,000)**
Debt service				
Principal	**$ 143,896**	**$ 143,896**	**$ 151,712**	**$ (7,816)**
Interest	**$ -**	**$ -**	**$ 9,297**	**$ (9,297)**
Total Expenditures	**$ 5,537,189**	**$ 5,565,199**	**$ 5,945,674**	**$ (380,475)**
Excess of Revenues Over (Under) Expenditures	**$ 74,206**	**$ 46,196**	**$ 199,980**	**$ 153,784**
Other Financing Sources (Uses)				
Transfers out	$ (140,759)	$ (140,759)	$ (664,227)	$ (523,468)
Loans issued	114,622	114,622	94,032	(20,590)
Compensation for loss on capital assets	-	-	72,638	72,638
Total Other Financing Sources (Uses)	**$ (26,137)**	**$ (26,137)**	**$ (497,557)**	**$ (471,420)**
Net Change in Fund Balance	**$ 48,069**	**$ 20,059**	**$ (297,577)**	**$ (317,636)**
Fund Balance - January 1	**7,725,699**	**7,725,699**	**7,725,699**	**-**
Fund Balance - December 31	**$ 7,773,768**	**$ 7,745,758**	**$ 7,428,122**	**$ (317,636)**

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, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 1,756,177	$ 1,756,177	$ 1,765,224	$ 9,047
Intergovernmental	3,558,207	3,558,207	3,415,682	(142,525)
Charges for services	-	-	39,562	39,562
Miscellaneous	56,880	56,880	86,558	29,678
Total Revenues	**$ 5,371,264**	**$ 5,371,264**	**$ 5,306,991**	**$ (64,273)**
Expenditures				
Current				
Highways and streets				
Administration	$ 269,652	$ 269,652	$ 292,900	$ (23,248)
Maintenance	1,233,495	1,633,495	1,604,030	29,465
Construction	2,072,307	2,072,307	1,847,076	225,231
Equipment and maintenance shops	1,180,810	1,180,810	964,556	216,254
Total highways and streets	**$ 4,756,264**	**$ 5,156,264**	**$ 4,708,562**	**$ 447,702**
Intergovernmental				
Highways and streets	**$ 340,000**	**$ 340,000**	**$ 346,790**	**$ (6,790)**
Debt service				
Principal	$ -	$ -	$ 73,864	$ (73,864)
Interest	-	-	15,044	(15,044)
Total debt service	**$ -**	**$ -**	**$ 88,908**	**$ (88,908)**
Total Expenditures	**$ 5,096,264**	**$ 5,496,264**	**$ 5,144,260**	**$ 352,004**
Excess of Revenues Over (Under) Expenditures	**$ 275,000**	**$ (125,000)**	**$ 162,731**	**$ 287,731**
Other Financing Sources (Uses)				
Transfers in	$ 125,000	$ 125,000	$ 625,000	$ 500,000
Proceeds from sale of assets	-	-	12,603	12,603
Total Other Financing Sources (Uses)	**$ 125,000**	**$ 125,000**	**$ 637,603**	**$ 512,603**
Net Change in Fund Balance	**$ 400,000**	**$ -**	**$ 800,334**	**$ 800,334**
Fund Balance - January 1	**(103,818)**	**(103,818)**	**(103,818)**	**-**
Increase (decrease) in inventories	**-**	**-**	**(74,969)**	**(74,969)**
Fund Balance - December 31	**$ 296,182**	**$ (103,818)**	**$ 621,547**	**$ 725,365**

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

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Revenues				
Taxes	$ 2,188,853	$ 2,188,853	$ 2,160,800	$ (28,053)
Intergovernmental	1,771,601	1,771,601	1,692,642	(78,959)
Charges for services	44,200	44,200	65,220	21,020
Miscellaneous	389,600	389,600	420,359	30,759
Total Revenues	**$ 4,394,254**	**$ 4,394,254**	**$ 4,339,021**	**$ (55,233)**
Expenditures				
Current				
Human services				
Income maintenance	$ 1,158,162	$ 1,158,162	$ 1,183,573	$ (25,411)
Social services	3,236,092	3,236,092	3,575,316	(339,224)
Total Expenditures	**$ 4,394,254**	**$ 4,394,254**	**$ 4,758,889**	**$ (364,635)**
Net Change in Fund Balance	**$ -**	**$ -**	**$ (419,868)**	**$ (419,868)**
Fund Balance - January 1	**1,296,796**	**1,296,796**	**1,296,796**	**-**
Fund Balance - December 31	**$ 1,296,796**	**$ 1,296,796**	**$ 876,928**	**$ (419,868)**

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

EXHIBIT A-4

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (%) (a/b)	Covered Payroll (c)	UAAL as a Percentage (%) of Covered Payroll ((b-a)/c)
January 1, 2008	$ -	$ 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%

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

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COTTONWOOD COUNTY
WINDOM, MINNESOTA

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2013

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

	Original Budget	Increase (Decrease)	Final Budget
General Fund	$ 5,537,189	$ 28,010	$ 5,565,199
Road and Bridge Special Revenue Fund	5,096,264	400,000	5,496,264

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, 2013:

Fund	Expenditures	Final Budget	Excess
General Fund	$ 5,945,674	$ 5,565,199	$ 380,475
Family Services Special Revenue Fund	4,758,889	4,394,254	364,635

4. Excess of Expenditures Over Appropriations (Continued)

The expenditures in excess of budget were funded by unbudgeted revenues and fund balance. The primary reasons for the excess expenditures in the General Fund were attributable to the unbudgeted other general government expenditures. The primary reasons for the excess expenditures in the Family Service Special Revenue Fund were attributable to unbudgeted increases in out of home placement expenditures in the audit year.

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.3., 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, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 50,000	$ 50,000	$ 49,236	$ (764)
Miscellaneous	65,400	65,400	71,582	6,182
Total Revenues	**$ 115,400**	**$ 115,400**	**$ 120,818**	**$ 5,418**
Expenditures				
Current				
General government				
Buildings and plant	65,000	65,000	95,146	(30,146)
Net Change in Fund Balance	**$ 50,400**	**$ 50,400**	**$ 25,672**	**$ (24,728)**
Fund Balance - January 1	**180,356**	**180,356**	**180,356**	**-**
Fund Balance - December 31	**$ 230,756**	**$ 230,756**	**$ 206,028**	**$ (24,728)**

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT C-1

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Balance January 1	Additions	Deductions	Balance December 31
AGENCY				
Assets				
Cash and pooled investments	$ 235,725	$ 526,838	$ 725,138	$ 37,425
Liabilities				
Due to other governments	$ 235,725	$ 526,838	$ 725,138	$ 37,425
MENTAL HEALTH CONSORTIUM				
Assets				
Cash and pooled investments	$ 978,796	$ 5,521,281	$ 6,497,598	$ 2,479
Liabilities				
Due to other governments	$ 978,796	$ 5,521,281	$ 6,497,598	$ 2,479
MORTGAGE REGISTRY				
Assets				
Cash and pooled investments	$ 3,669	$ 78,919	$ 75,693	$ 6,895
Liabilities				
Due to other governments	$ 3,669	$ 78,919	$ 75,693	$ 6,895

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT C-1
(Continued)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Balance January 1	Additions	Deductions	Balance December 31
STATE DEED TAX				
Assets				
Cash and pooled investments	$ 66,163	$ 164,834	$ 206,773	$ 24,224
Liabilities				
Due to other governments	$ 66,163	$ 164,834	$ 206,773	$ 24,224
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	$ 262,254	$ 18,531,674	$ 18,672,676	$ 121,252
Liabilities				
Due to other governments	$ 262,254	$ 18,531,674	$ 18,672,676	$ 121,252
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	$ 1,546,607	$ 24,823,546	$ 26,177,878	$ 192,275
Liabilities				
Due to other governments	$ 1,546,607	$ 24,823,546	$ 26,177,878	$ 192,275

EXHIBIT D-1

SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2013

Shared Revenue		
State		
Highway users tax	$	2,800,842
County program aid		236,466
PERA rate reimbursement		17,411
Disparity reduction aid		43,251
Police aid		65,146
Enhanced 911		94,258
Market value credit		144,740
Total shared revenue	**$**	**3,402,114**
Reimbursement for Services		
State		
Minnesota Department of Human Services	**$**	**332,237**
Payments		
Local		
Payments in lieu of taxes	**$**	**197,965**
Grants		
State		
Minnesota Department/Board of		
Corrections	$	20,174
Public Safety		10,095
Transportation		402,006
Human Services		622,870
Natural Resources		98,794
Veterans Affairs		9,798
Water and Soil Resources		97,740
Pollution Control Agency		55,950
Total state	**$**	**1,317,427**
Federal		
Department of		
Agriculture	$	81,818
Commerce		20,317
Transportation		203,486
Health and Human Services		703,393
Homeland Security		28,390
Total federal	**$**	**1,037,404**
Total state and federal grants	**$**	**2,354,831**
Total Intergovernmental Revenue	**$**	**6,287,147**

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT D-2

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP)	10.561	**$ 81,818**
U.S. Department of Commerce		
Passed Through Lyon County		
Public Safety Interoperable Communications Grant Program	11.555	**$ 20,317**
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction	20.205	$ 192,547
Passed Through City of Worthington		
State and Community Highway Safety	20.600	10,939
Total U.S. Department of Transportation		**$ 203,486**
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	$ 2,018
Temporary Assistance for Needy Families	93.558	91,731
Child Support Enforcement	93.563	184,428
Refugee and Entrant Assistance - State-Administered Programs	93.566	212
Child Care and Development Block Grant	93.575	2,852
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1,009
Foster Care - Title IV-E	93.658	20,181
Social Services Block Grant	93.667	102,139
Chafee Foster Care Independence Program	93.674	6,579
Children's Health Insurance Program	93.767	39
Medical Assistance Program	93.778	334,054
Total U.S. Department of Health and Human Services		**$ 745,242**
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	**$ 28,390**
Total Federal Awards		**$ 1,079,253**

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

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COTTONWOOD COUNTY
WINDOM, MINNESOTA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013

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, 2013. 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 position, 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	$	1,037,404
Grants received more than 60 days after year-end, deferred in 2013		
Foster Care - Title IV-E		2,411
Medical Assistance Program		39,438
Expenditures Per Schedule of Expenditures of Federal Awards	$	1,079,253

5. Subrecipients

During 2013, the County did not pass any federal money to subrecipients.

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COTTONWOOD COUNTY
WINDOM, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:
- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **Yes**

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

Federal Awards

Internal control over major programs:
- Material weaknesses identified? **No**
- Significant deficiencies identified? **No**

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? **No**

The major programs are:

Highway Planning and Construction	CFDA #20.205
Child Support Enforcement	CFDA #93.563
Medical Assistance Program	CFDA #93.778

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

Cottonwood County qualified as a low-risk auditee? **No**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 2000-003

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:

The County will formalize its budget procedures.

Finding 2006-006

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: The following audit adjustments were necessary to be recorded for December 31, 2013:

- Adjustments were made to the Family Services Special Revenue Fund to properly record the $1,049,529 distribution to Des Moines Valley Health and Human Services as a prepaid item, to properly classify transactions of $724,517 as intergovernmental revenue, and to properly record the $71,427 Temporary Assistance to Needy Families transactions as County revenue and expenditures; these transactions were passed to the County from Chippewa County.

- Adjustments were made in the Landfill Proprietary Fund to properly record $356,500 as loan proceeds, $22,449 as a current year debt payment, and $23,303 as the current portion of the loans payable amount.

- An adjustment of $104,506 was made in the Investment Trust Fiduciary Fund to record the distribution payment made to Des Moines Valley Health and Human Services on December 31, 2013, as a prepaid item.

- Numerous adjustments were required to reclassify revenue, expenditure, and fund balance accounts. These reclassifications had no effect on net position.

- Audit adjustments were also necessary to adjust modified accrual financial statements to the accrual basis for the government-wide financial statements.

Cause: Cottonwood County has limited staff and experience in preparing financial statements. Procedures are not in place to consider the full extent of all entries needed for financial reporting.

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 with recommendations.

PREVIOUSLY REPORTED ITEMS RESOLVED

Capital Assets Policies and Procedures (2006-002)

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

Resolution

The County has begun using longer useful lives on capital assets additions to reduce future assets from being in use after they have been fully depreciated.

Recording Additions to Capital Assets (2011-001)

Capital assets acquired during 2011 and 2012 had been omitted from the County's records of capital assets.

Resolution

Previously omitted capital assets were added to the County's capital assets system. No additional assets were noted that were not included in the capital assets system.

Prior Period Adjustment (2012-001)

The January 1, 2012, net position and capital assets of the Landfill Enterprise Fund and of the business-type activities were restated to account for the construction and accumulated depreciation of Cells 1 through 6.

Resolution

County records were adjusted to properly account for the items that had not been recorded in previous years.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 1996-006

Individual Ditch System Deficits

Criteria: Minn. Stat. § 103E.655 requires that drainage system costs be paid from the ditch system account for which the costs are being incurred. This statute allows for loans to be made from ditch systems with surplus funds or from the General Fund to a ditch system with insufficient cash to pay expenditures. Such loans must be paid back with interest.

Additionally, individual ditch systems should be maintained with a positive fund balance to display solvency. As provided by Minn. Stat. § 103E.735, subd. 1, a fund balance to be used for repairs may be established for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or $100,000, whichever is larger.

Condition: The County had individual ditch systems with deficit cash balances and deficit fund balances at December 31, 2013.

Context: Of the County's 87 ditches, at December 31, 2013, 1 ditch system had a negative cash balance of $65,668, and 8 ditch systems had deficit fund balances totaling $235,373.

Effect: The County is not in compliance with Minnesota statutes by having ditch systems with negative cash balances. Ditch systems with negative fund balances indicate that measures have not been taken to ensure that an individual ditch system can meet its financial obligations.

Cause: Expenditures have been made for ditch systems with insufficient cash to cover the expenditures. Additionally, special assessments levied for systems have not been sufficient to meet all obligations of the systems.

Recommendation: We recommend that the County eliminate the cash deficits by borrowing from eligible funds with surplus cash balances under Minn. Stat. § 103E.655. Individual fund balance deficits should be eliminated by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1, which permits the accumulation of a surplus cash balance to provide for the repair and maintenance of the ditch systems.

Client's Response:

The County will continue to work towards positive cash balances in all ditch funds.

Finding 2011-003

Noncomplying Investments

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

Condition: The County held negotiable certificates of deposit (CDs) in excess of FDIC coverage available for the depository.

Context: The amount of the time deposit not covered by sufficient FDIC coverage was $50,000 at December 31, 2013.

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

Cause: Multiple CDs were purchased from the same bank through two different brokers. An error was made in identifying how much had already been deposited before purchasing the CDs.

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:

Internal CD reports are being updated after each transaction to avoid future issues.

ITEM ARISING THIS YEAR

Finding 2013-001

Unsecured Deposits

Criteria: Governmental entities are required by Minn. Stat. § 118A.03, subd. 1, to obtain collateral to secure deposits to the extent that funds on deposit exceed available federal deposit insurance at the close of the financial institution's banking day. As required by Minn. Stat. § 118A.03, subd. 3, the market value of the collateral must be at least ten percent more than the uninsured and unbonded amount on deposit.

Condition: During mid-year, it was noted that County deposits at Bank of the West were not adequately covered by collateral. At year-end, it was noted that the County had purchased CDs issued through a deposit placement service in excess of insurance available from the bank.

Context: At May 31, 2013, the County had deposits at Bank of the West, of which an additional $58,593 in collateral would have been necessary to meet the 110 percent requirement.

At December 31, 2013, the County had CDs purchased from various banks, of which $444,500 were insufficiently secured according to Minnesota statutory requirements.

Effect: The County was not in compliance with Minnesota statutes, exposing County deposits to custodial credit risk.

Cause: At mid-year, Bank of the West had not correctly calculated how much FDIC coverage was available to the County and indicated to the County that its deposits were covered, when they were not. The County did not notice this error.

Near year-end, CDs purchased through a deposit placement service were from banks that the County had previously purchased negotiable CDs. The County was unaware that the CDs purchased through the placement service relied on the same coverage as the negotiable CDs.

Recommendation: We recommend the County monitor all County deposits to determine there is adequate collateral pledged to secure deposits in accordance with Minn. Stat. § 118A.03.

Client's Response:

The County will not rely on bank opinions for collateral limits and will compute those limits more frequently during tax collection periods.

The County will provide Bank Midwest a list of current FDIC CDs owned by the County if we decide to further participate in the CDARS program.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS RESOLVED

Road and Bridge Deficit Fund Balance (2009-004)

The assets in the County's Road and Bridge Special Revenue Fund at December 31, 2012, did not exceed liabilities, resulting in a deficit fund balance amount.

Resolution

The Road and Bridge Special Revenue Fund balance was positive at December 31, 2013.

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

Independent Auditor's Report

Board of County Commissioners
Cottonwood County

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, 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, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated May 30, 2014.

Internal Control Over Financial Reporting

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

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

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2006-006 to be a material weakness.

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2000-003 to be a significant deficiency.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

In connection with our audit, nothing came to our attention that caused us to believe that Cottonwood County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as items 1996-006, 2011-003, and 2013-001. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Cottonwood County's Response to Findings

Cottonwood County's responses to the internal control and legal compliance findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

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

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

May 30, 2014

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Board of County Commissioners
Cottonwood County

Report on Compliance for Each Major Federal Program

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 each of the County's major federal programs for the year ended December 31, 2013. Cottonwood County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility
Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for each of Cottonwood County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Cottonwood County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of Cottonwood County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

May 30, 2014