

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

COTTONWOOD COUNTY
WINDOM, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2012

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, 2012



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

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

ORGANIZATION
2012

Office	Name	Term Expires
Commissioners		
1st District	Jim Schmidt	January 2015
2nd District	Ron Kuecker	January 2013
3rd District	Tom White	January 2015
4th District	Norm Holmen *	January 2013
5th District	John Oeltjenbruns **	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	Gerald Engstrom ***	Interim
Veterans Service Officer	Todd Dibble	Indefinite
Environmental Officer	Gordy Olson	Interim
Emergency Services Director	Kim Hall	Indefinite
Family Service Director	Craig Myers	Indefinite

* Chair 2012

** Chair 2013

*** Appointed JinYeene Neumann, effective April 29, 2013

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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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, 2012, 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, 2012, 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.

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 Governmental Accounting Standards Board, 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 as listed in the table of contents 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 2, 2013, 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 2, 2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012
(Unaudited)**

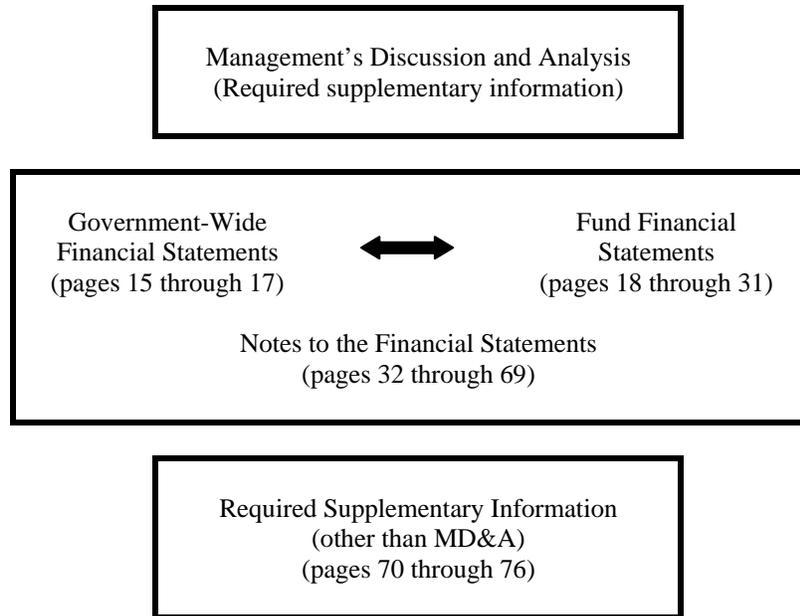
Cottonwood County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2012. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements (beginning on page 15).

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is \$57,451,274, of which \$48,263,111 is invested in capital assets, net of related debt, leaving \$1,856,341 of the governmental activities' net position restricted for specific uses and \$7,331,822 as unrestricted.
- Business-type activities have a total net position of \$1,600,546, of which \$943,967 is invested in capital assets, leaving \$463,814 of the business-type net position restricted for specific uses and \$192,765 as unrestricted.
- Cottonwood County's net position increased by \$2,184,180 for the year ended December 31, 2012. This increase is comprised of \$2,154,019 in the governmental activities' net position, a decrease of \$81,984 in business-type activities' net position, and a restatement of \$112,145.
- The net cost of governmental activities was \$6,102,313 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$8,256,332.
- Governmental funds' fund balances increased by \$1,399,059. This net increase was due mainly to decreased liabilities in the Road and Bridge and Ditch Special Revenue Funds.

OVERVIEW OF THE FINANCIAL STATEMENTS

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



There are two government-wide financial statements. The Statement of Net 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 liabilities--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 70 through 76.

THE COUNTY AS A WHOLE

The County's combined net position is \$59,051,820. 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

	2012			2011 (Restated)
	Governmental Activities	Business-Type Activities	Total	
Assets				
Current and other assets	\$ 12,540,829	\$ 1,973,442	\$ 14,514,271	\$ 16,048,377
Capital assets	48,791,834	943,967	49,735,801	47,264,056
Total Assets	\$ 61,332,663	\$ 2,917,409	\$ 64,250,072	\$ 63,312,433
Liabilities				
Long-term liabilities	\$ 3,122,487	\$ 1,289,083	\$ 4,411,570	\$ 4,155,131
Other liabilities	758,902	27,780	786,682	2,177,517
Total Liabilities	\$ 3,881,389	\$ 1,316,863	\$ 5,198,252	\$ 6,332,648
Net Position				
Net investment in capital assets	\$ 48,263,111	\$ 943,967	\$ 49,207,078	\$ 46,892,365
Restricted	1,856,341	463,814	2,320,155	2,900,695
Unrestricted	7,331,822	192,765	7,524,587	7,186,725
Total Net Position	\$ 57,451,274	\$ 1,600,546	\$ 59,051,820	\$ 56,979,785

Net position of the County's governmental activities was \$57,451,274. 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 \$7,331,822 at the end of the year. The net position of business-type activities was \$1,600,546.

Table 2
Changes in Net Position
(in Thousands)

	2012			2011 (Restated)
	Governmental Activities	Business-Type Activities	Total	
Revenues				
Program revenues				
Fees, fines, and charges	\$ 1,631	\$ 495	\$ 2,126	\$ 2,114
Operating grants and contributions	5,845	-	5,845	5,728
Capital grants and contributions	550	-	550	1,696
General revenues				
Property taxes	7,028	-	7,028	6,337
Other taxes	261	-	261	417
Grants, gifts, and miscellaneous	986	-	986	1,080
Total Revenues	\$ 16,301	\$ 495	\$ 16,796	\$ 17,372
Expenses				
General government	\$ 2,397	\$ -	\$ 2,397	\$ 2,178
Public safety	2,358	-	2,358	2,086
Highways and streets	3,665	-	3,665	4,082
Sanitation	561	-	561	233
Human services	4,137	-	4,137	4,000
Health	182	-	182	173
Culture and recreation	139	-	139	186
Conservation of natural resources	666	-	666	916
Interest	23	-	23	86
Landfill	-	596	596	819
Total Expenses	\$ 14,128	\$ 596	\$ 14,724	\$ 14,759
Increase (Decrease) Before Transfers	\$ 2,173	\$ (101)	\$ 2,072	\$ 2,613
Transfers	(19)	19	-	-
Increase (Decrease) in Net Position	\$ 2,154	\$ (82)	\$ 2,072	\$ 2,613
Net Position - January 1	\$ 55,297	\$ 1,571	\$ 56,868	\$ 54,255
January 1 Restatement	-	112	112	112
Net Position - January 1, restated	\$ 55,297	\$ 1,683	\$ 56,980	\$ 54,367
Net Position - December 31	\$ 57,451	\$ 1,601	\$ 59,052	\$ 56,980

The County's activities increased net position by 3.64 percent (\$59,051,820 for 2012 compared to \$56,979,785 for 2011).

TOTAL COUNTY REVENUE

Governmental Activities

Revenues for the County's governmental activities (see Table 2) were \$16,301,259, while total expenses were \$14,128,359, and transfers out were \$18,881. This reflects a \$2,154,019 increase in net position for the year ended December 31, 2012.

Business-Type Activities

Revenues of the County's business-type activities (see Table 2) were \$494,593, transfers in were \$18,881, and expenses were \$595,540. This reflects a \$81,984 decrease in net position for the year ending December 31, 2012.

Governmental Activities' Expenses

The cost of the County's governmental activities this year was \$14,128,359. 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 \$6,102,313 because some of the cost was paid by those who directly benefited from the programs (\$1,630,898) or by other governments and organizations that subsidized certain programs with grants and contributions (\$6,395,148).

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)

	2012	
	Total Cost of Services	Net Cost of Services
Human services	\$ 4,137	\$ 2,004
Highways and streets	3,665	(343)
General government	2,397	1,892
Public safety	2,358	1,797
Conservation of natural resources	666	200
All others	905	552
Totals	<u>\$ 14,128</u>	<u>\$ 6,102</u>

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 \$9,547,109, which is above last year's total of \$8,148,050. The governmental funds' change in fund balance (an increase of \$1,399,059 for 2012) represents a 17.1 percent increase in governmental fund balances. Most of the governmental funds' increase is due to decreased liabilities 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 \$143,635 above the final budget amounts. The major reason for variances of actual expenditures from final budget in this case is the unbudgeted expenditures of water quality loan program payments.

On the other hand, resources available for appropriation were \$473,521 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 2012, the County had \$49,735,801 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 \$2,583,890, or 5.48 percent, over last year. This increase also reflects a restatement of the business-type activities capital asset beginning balance at January 1, 2012, for an understatement of land improvements and related accumulated depreciation in prior years for landfill cells not originally included.

Table 4
Changes in Capital Assets During 2012

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 315,824	\$ -	\$ -	\$ 315,824
Right-of-way	795,883	200	-	796,083
Construction in progress	1,397	-	1,397	-
Total capital assets not depreciated	\$ 1,113,104	\$ 200	\$ 1,397	\$ 1,111,907

(Unaudited)

Page 11

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Buildings	\$ 4,833,871	\$ -	\$ -	\$ 4,833,871
Machinery and equipment	6,060,628	931,422	639,007	6,353,043
Infrastructure	55,506,349	2,917,307	-	58,423,656
Total capital assets depreciated	<u>\$ 66,400,848</u>	<u>\$ 3,848,729</u>	<u>\$ 639,007</u>	<u>\$ 69,610,570</u>
Less: accumulated depreciation for				
Buildings	\$ 2,268,610	\$ 115,159	\$ -	\$ 2,383,769
Machinery and equipment	4,027,152	401,409	507,785	3,920,776
Infrastructure	14,489,099	1,136,999	-	15,626,098
Total accumulated depreciation	<u>\$ 20,784,861</u>	<u>\$ 1,653,567</u>	<u>\$ 507,785</u>	<u>\$ 21,930,643</u>
Total capital assets depreciated, net	<u>\$ 45,615,987</u>	<u>\$ 2,195,162</u>	<u>\$ 131,222</u>	<u>\$ 47,679,927</u>
Governmental Activities Capital Assets, Net	<u>\$ 46,729,091</u>	<u>\$ 2,195,362</u>	<u>\$ 132,619</u>	<u>\$ 48,791,834</u>

Business-Type Activities

	Beginning Balance (Restated)	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 163,882	\$ -	\$ -	\$ 163,882
Capital assets depreciated				
Buildings	\$ 23,700	\$ -	\$ -	\$ 23,700
Land improvements	1,847,626	515,459	-	2,363,085
Machinery and equipment	459,075	23,810	20,244	462,641
Total capital assets depreciated	<u>\$ 2,330,401</u>	<u>\$ 539,269</u>	<u>\$ 20,244</u>	<u>\$ 2,849,426</u>
Less: accumulated depreciation for				
Buildings	\$ 21,396	\$ 790	\$ -	\$ 22,186
Land improvements	1,735,481	64,664	-	1,800,145
Machinery and equipment	202,441	64,813	20,244	247,010
Total accumulated depreciation	<u>\$ 1,959,318</u>	<u>\$ 130,267</u>	<u>\$ 20,244</u>	<u>\$ 2,069,341</u>
Total capital assets depreciated, net	<u>\$ 371,083</u>	<u>\$ 409,002</u>	<u>\$ -</u>	<u>\$ 780,085</u>
Business-Type Activities Capital Assets, Net	<u>\$ 534,965</u>	<u>\$ 409,002</u>	<u>\$ -</u>	<u>\$ 943,967</u>

The County's fiscal year 2012 capital budget called for it to spend \$2,569,000 on highway and bridge construction and \$324,382 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 \$4,411,570, versus \$4,155,131 last year--an increase of 6.2 percent--as shown in Table 5.

Table 5
Changes in Outstanding Debt During 2011

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	\$ -	\$ -	\$ 1,090,000	\$ 160,000
Less: deferred amount on refunding	(27,313)	-	(4,553)	(22,760)	-
Add: unamortized premium	21,050	-	2,608	18,442	-
Total bonds payable	\$ 1,083,737	\$ -	\$ (1,945)	\$ 1,085,682	\$ 160,000
Loans payable	953,588	50,294	145,210	858,672	142,276
Capital lease	128,113	377,077	24,012	481,178	73,864
Compensated absences	740,588	-	43,633	696,955	37,566
Governmental Activities Long-Term Liabilities	\$ 2,906,026	\$ 427,371	\$ 210,910	\$ 3,122,487	\$ 413,706

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Estimated liability for landfill closure and postclosure care	\$ 1,248,315	\$ 24,465	\$ -	\$ 1,272,780	\$ -
Compensated absences	790	15,513	-	16,303	-
Business-Type Activities Long-Term Liabilities	\$ 1,249,105	\$ 39,978	\$ -	\$ 1,289,083	\$ -

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 (\$2,063,771,600) in the County. The County's outstanding net debt (\$4,411,570) is significantly below this state-imposed limit (\$61,913,148).

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 2013 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 2013 are budgeted to increase 3.19 percent from 2012.
- Property taxes levied have increased 11.00 percent for 2013.

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, 2012**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Cash and pooled investments	\$ 9,555,585	\$ 202,571	\$ 9,758,156
Receivable - net	2,497,435	34,277	2,531,712
Inventories	380,000	-	380,000
Restricted assets			
Cash and pooled investments	-	1,736,594	1,736,594
Net OPEB asset	80,751	-	80,751
Deferred charges	27,058	-	27,058
Capital assets			
Non-depreciable capital assets	1,111,907	163,882	1,275,789
Depreciable capital assets - net of accumulated depreciation	47,679,927	780,085	48,460,012
Total Assets	\$ 61,332,663	\$ 2,917,409	\$ 64,250,072
<u>Liabilities</u>			
Accounts payable and other current liabilities	\$ 587,981	\$ 27,780	\$ 615,761
Accrued interest payable	9,538	-	9,538
Unearned revenue	93,130	-	93,130
Advance from other governments	68,253	-	68,253
Long-term liabilities			
Due within one year	413,706	-	413,706
Due in more than one year	2,708,781	1,289,083	3,997,864
Total Liabilities	\$ 3,881,389	\$ 1,316,863	\$ 5,198,252
<u>Net Position</u>			
Net investment in capital assets	\$ 48,263,111	\$ 943,967	\$ 49,207,078
Restricted for			
Public safety	248,500	-	248,500
Highways and streets	455,062	-	455,062
Conservation of natural resources	808,561	-	808,561
Economic development	50,886	-	50,886
Postclosure care	-	463,814	463,814
Other purposes	293,332	-	293,332
Unrestricted	7,331,822	192,765	7,524,587
Total Net Position	\$ 57,451,274	\$ 1,600,546	\$ 59,051,820

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>
Governmental activities		
General government	\$ 2,396,618	\$ 303,391
Public safety	2,357,913	74,682
Highways and streets	3,664,704	235,415
Sanitation	561,267	238,042
Human services	4,137,308	454,292
Health	182,588	-
Culture and recreation	139,146	60,167
Conservation of natural resources	666,257	264,909
Interest	22,558	-
Total governmental activities	\$ 14,128,359	\$ 1,630,898
Business-type activities		
Landfill	595,540	494,593
Total	\$ 14,723,899	\$ 2,125,491

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, as previously reported
Restatement (Note 3.A.3.)

Net Position - January 1, as restated

Net Position - December 31

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Position		
Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
\$ 201,151	\$ -	\$ (1,892,076)	\$ -	\$ (1,892,076)
213,340	272,660	(1,797,231)	-	(1,797,231)
3,494,463	277,363	342,537	-	342,537
55,950	-	(267,275)	-	(267,275)
1,679,354	-	(2,003,662)	-	(2,003,662)
-	-	(182,588)	-	(182,588)
-	-	(78,979)	-	(78,979)
200,867	-	(200,481)	-	(200,481)
-	-	(22,558)	-	(22,558)
\$ 5,845,125	\$ 550,023	\$ (6,102,313)	\$ -	\$ (6,102,313)
-	-	-	(100,947)	(100,947)
\$ 5,845,125	\$ 550,023	\$ (6,102,313)	\$ (100,947)	\$ (6,203,260)
		\$ 7,027,812	\$ 82	\$ 7,027,894
		59,132	-	59,132
		10,924	-	10,924
		191,434	-	191,434
		461,652	-	461,652
		213,005	-	213,005
		112,893	-	112,893
		198,361	-	198,361
		(18,881)	18,881	-
		\$ 8,256,332	\$ 18,963	\$ 8,275,295
		\$ 2,154,019	\$ (81,984)	\$ 2,072,035
		55,297,255	1,570,385	56,867,640
		-	112,145	112,145
		\$ 55,297,255	\$ 1,682,530	\$ 56,979,785
		\$ 57,451,274	\$ 1,600,546	\$ 59,051,820

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 7,268,599	\$ 10,000
Petty cash and change funds	3,350	-
Undistributed cash in agency funds	171,413	-
Taxes receivable		
Prior	90,025	-
Special assessments		
Prior	20,675	175
Noncurrent	558,339	-
Accounts receivable	41,421	-
Accrued interest receivable	26,020	-
Due from other governments	91,464	507,693
Inventories	-	380,000
Advances to other funds	432,612	-
	\$ 8,703,918	\$ 897,868
Total Assets	\$ 8,703,918	\$ 897,868

EXHIBIT 3

<u>Family Services</u>	<u>Ditch</u>	<u>Building</u>	<u>Total Governmental Funds</u>
\$ 1,393,850	\$ 512,583	\$ 178,895	\$ 9,363,927
-	-	-	3,350
-	14,995	1,900	188,308
-	-	1,049	91,074
-	249	-	21,099
-	995,305	-	1,553,644
20,354	-	-	61,775
-	-	-	26,020
144,666	-	-	743,823
-	-	-	380,000
-	-	-	432,612
<u>\$ 1,558,870</u>	<u>\$ 1,523,132</u>	<u>\$ 181,844</u>	<u>\$ 12,865,632</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 35,339	\$ 32,408
Salaries payable	132,949	40,747
Contracts payable	-	51,863
Due to other governments	32,094	68
Deferred revenue - unavailable	684,707	455,237
Deferred revenue - unearned	93,130	-
Advances from other funds	-	353,110
Advances from other governments	-	68,253
	\$ 978,219	\$ 1,001,686
Fund Balances		
Nonspendable		
Inventories	\$ -	\$ 380,000
Advances to other funds	432,612	-
Restricted for		
Law library	8,898	-
Recorder's technology fund	47,696	-
Enhanced 911	225,483	-
Permit to carry	22,921	-
Sheriff's contingency fund	96	-
Recorder's compliance fund	118,172	-
Election equipment	67,725	-
Low-interest small business loans	50,886	-
Transportation	50,841	-
Septic/sewer loans	513,931	-
Ditch maintenance and repairs	-	-
Committed to		
Southwest Mental Health Center	131,000	-
Assigned to		
Capital improvements	189,218	-
Canteen fund	21,024	-
Human services	-	-
Building projects	-	-
Unassigned	5,845,196	(483,818)
	\$ 7,725,699	\$ (103,818)
Total Fund Balances	\$ 7,725,699	\$ (103,818)
Total Liabilities and Fund Balances	\$ 8,703,918	\$ 897,868

EXHIBIT 3
(Continued)

<u>Family Services</u>	<u>Ditch</u>	<u>Building</u>	<u>Total Governmental Funds</u>
\$ 169,075	\$ -	\$ 439	\$ 237,261
77,448	-	-	251,144
-	-	-	51,863
15,551	-	-	47,713
-	995,554	1,049	2,136,547
-	-	-	93,130
-	79,502	-	432,612
-	-	-	68,253
<u>\$ 262,074</u>	<u>\$ 1,075,056</u>	<u>\$ 1,488</u>	<u>\$ 3,318,523</u>
\$ -	\$ -	\$ -	\$ 380,000
-	-	-	432,612
-	-	-	8,898
-	-	-	47,696
-	-	-	225,483
-	-	-	22,921
-	-	-	96
-	-	-	118,172
-	-	-	67,725
-	-	-	50,886
-	-	-	50,841
-	-	-	513,931
-	590,864	-	590,864
-	-	-	131,000
-	-	-	189,218
-	-	-	21,024
1,296,796	-	-	1,296,796
-	-	180,356	180,356
-	(142,788)	-	5,218,590
<u>\$ 1,296,796</u>	<u>\$ 448,076</u>	<u>\$ 180,356</u>	<u>\$ 9,547,109</u>
<u>\$ 1,558,870</u>	<u>\$ 1,523,132</u>	<u>\$ 181,844</u>	<u>\$ 12,865,632</u>

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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, 2012**

Fund balances - total governmental funds (Exhibit 3)		\$ 9,547,109
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.		48,791,834
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		2,136,547
Net OPEB assets		80,751
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (1,090,000)	
Capital leases	(481,178)	
Loans payable	(858,672)	
Compensated absences	(696,955)	
Accrued interest payable	(9,538)	
Unamortized premium on general obligation refunding bonds	(18,442)	
Deferred debt issuance charges	27,058	
Deferred amount on refunding bonds	22,760	(3,104,967)
Net Position of Governmental Activities (Exhibit 1)		<u>\$ 57,451,274</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General	Road and Bridge
Revenues		
Taxes	\$ 3,925,869	\$ 1,145,517
Special assessments	333,451	59
Licenses and permits	13,594	-
Intergovernmental	1,475,360	4,684,583
Charges for services	339,868	85,660
Fines and forfeits	6,681	-
Gifts and contributions	3,764	-
Investment earnings	112,882	-
Miscellaneous	279,966	107,440
	\$ 6,491,435	\$ 6,023,259
Expenditures		
Current		
General government	\$ 2,181,041	\$ -
Public safety	2,328,761	-
Highways and streets	-	5,788,587
Sanitation	575,284	-
Human services	-	-
Health	10,119	-
Culture and recreation	131,426	-
Conservation of natural resources	542,582	-
Intergovernmental	172,469	337,911
Debt service		
Principal	145,210	24,012
Interest	9,143	4,160
Administrative (fiscal) charges	-	-
	\$ 6,096,035	\$ 6,154,670
Excess of Revenues Over (Under) Expenditures	\$ 395,400	\$ (131,411)
Other Financing Sources (Uses)		
Transfers in	\$ 12,500	\$ 67,500
Transfers out	(98,881)	-
Capital lease	-	377,077
Loans	50,294	-
Proceeds from sale of assets	-	42,315
	\$ (36,087)	\$ 486,892
Net Change in Fund Balances	\$ 359,313	\$ 355,481
Fund Balances - January 1	7,366,386	(596,680)
Increase (decrease) in inventories	-	137,381
Fund Balances - December 31	\$ 7,725,699	\$ (103,818)

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

EXHIBIT 5

<u>Family Services</u>	<u>Ditch</u>	<u>Building</u>	<u>Total Governmental Funds</u>
\$ 2,109,761	\$ -	\$ 96,928	\$ 7,278,075
-	444,871	-	778,381
-	-	-	13,594
1,683,810	-	-	7,843,753
47,706	-	-	473,234
-	-	-	6,681
-	-	-	3,764
-	-	-	112,882
406,586	1,806	65,400	861,198
\$ 4,247,863	\$ 446,677	\$ 162,328	\$ 17,371,562
\$ -	\$ -	\$ 51,786	\$ 2,232,827
-	-	-	2,328,761
-	-	-	5,788,587
-	-	-	575,284
4,122,008	-	-	4,122,008
-	-	-	10,119
-	-	-	131,426
-	121,317	-	663,899
-	-	-	510,380
-	-	-	169,222
-	14,438	-	27,741
-	435	-	435
\$ 4,122,008	\$ 136,190	\$ 51,786	\$ 16,560,689
\$ 125,855	\$ 310,487	\$ 110,542	\$ 810,873
\$ -	\$ -	\$ -	\$ 80,000
-	-	-	(98,881)
-	-	-	377,077
-	-	-	50,294
-	-	-	42,315
\$ -	\$ -	\$ -	\$ 450,805
\$ 125,855	\$ 310,487	\$ 110,542	\$ 1,261,678
1,170,941	137,589	69,814	8,148,050
-	-	-	137,381
\$ 1,296,796	\$ 448,076	\$ 180,356	\$ 9,547,109

**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, 2012**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 1,261,678

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

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

Deferred revenue - December 31	\$ 2,136,547	
Deferred revenue - January 1	(3,249,165)	(1,112,618)

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

Capital outlay expenditures	\$ 3,847,532	
Net book value of assets sold	(131,222)	
Current year depreciation	(1,653,567)	2,062,743

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

Proceeds of new debt		
Capital lease	\$ (377,077)	
Loans	(50,294)	(427,371)
Principal payments		
Capital lease	\$ 24,012	
Loans payable	145,210	169,222

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	\$ 11,389	
Amortization of discounts/premiums and deferred issuance charges	(5,771)	
Change in compensated absences payable	43,633	
Change in net OPEB obligation	13,733	
Change in inventories	137,381	200,365

Change in Net Position of Governmental Activities (Exhibit 2) \$ 2,154,019

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, 2012**

		<u>Landfill Enterprise Fund</u>
<u>Assets</u>		
Current assets		
Cash and pooled investments	\$	202,571
Accounts receivable - net		34,277
Restricted assets		
Cash and pooled investments		1,736,594
		<hr/>
Total current assets	\$	1,973,442
		<hr/>
Noncurrent assets		
Capital assets		
Nondepreciable	\$	163,882
Depreciable - net		780,085
		<hr/>
Total noncurrent assets	\$	943,967
		<hr/>
Total Assets	\$	2,917,409
		<hr/>
<u>Liabilities</u>		
Current liabilities		
Accounts payable	\$	6,590
Salaries payable		3,665
Contracts payable		17,525
		<hr/>
Total current liabilities	\$	27,780
		<hr/>
Noncurrent liabilities		
Compensated absences payable - long-term	\$	16,303
Estimated liability for landfill closure/postclosure		1,272,780
		<hr/>
Total noncurrent liabilities	\$	1,289,083
		<hr/>
Total Liabilities	\$	1,316,863
		<hr/>
<u>Net Position</u>		
Investment in capital assets	\$	943,967
Restricted for postclosure care		463,814
Unrestricted		192,765
		<hr/>
Total Net Position	\$	1,600,546
		<hr/> <hr/>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Landfill Enterprise Fund
Operating Revenues	
Charges for services	\$ 473,737
Licenses and permits	40
Miscellaneous	20,816
Total Operating Revenues	\$ 494,593
Operating Expenses	
Personal services	\$ 167,252
Professional services	21,353
Other services and charges	269,241
Utilities	6,772
Depreciation	106,457
Landfill closure and postclosure costs	24,465
Total Operating Expenses	\$ 595,540
Operating Income (Loss)	\$ (100,947)
Nonoperating Revenues	
Property taxes	82
Income (Loss) Before Transfers	\$ (100,865)
Transfers in	31,381
Transfers out	(12,500)
Change in Net Position	\$ (81,984)
Net Position - January 1, as previously reported	1,570,385
Restatement (Note 3.A.3.)	112,145
Net Position - January 1, as restated	\$ 1,682,530
Net Position - December 31	\$ 1,600,546

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2012
Increase (Decrease) in Cash and Cash Equivalents**

	Landfill Enterprise Fund
Cash Flows from Operating Activities	
Receipts from customers and users	\$ 494,806
Payments to suppliers	(354,694)
Payments to employees	(151,096)
	\$ (10,984)
Cash Flows from Noncapital Financing Activities	
Transfers in	\$ 31,381
Transfers out	(12,500)
	\$ 18,881
Cash Flows from Capital and Related Financing Activities	
Property taxes	\$ 82
Purchase of capital assets	(515,459)
	\$ (515,377)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (507,480)
Cash and Cash Equivalents - January 1	2,446,645
Cash and Cash Equivalents - December 31	\$ 1,939,165
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position - Exhibit 7	
Cash and pooled investments	\$ 202,571
Restricted cash and pooled investments	1,736,594
	\$ 1,939,165

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2012
Increase (Decrease) in Cash and Cash Equivalents**

	<u>Landfill Enterprise Fund</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	<u>\$ (100,947)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 106,457
Landfill closure and postclosure costs	24,465
(Increase) decrease in accounts receivable	(150)
(Increase) decrease in due from other governments	363
Increase (decrease) in accounts payable	(3,235)
Increase (decrease) in salaries payable	643
Increase (decrease) in contracts payable	(53,171)
Increase (decrease) in due to other funds	(922)
Increase (decrease) in compensated absences payable	15,513
Total adjustments	<u>\$ 89,963</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ (10,984)</u></u>

Noncash Investing, Capital, and Financing Activities

A fully depreciated asset with an original cost of \$23,810 was transferred to the fund from general capital assets.

FIDUCIARY FUNDS

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COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2012

	<u>Investment Trust</u>	<u>Agency</u>
<u>Assets</u>		
Cash and pooled investments	\$ 92,529	<u>\$ 1,546,607</u>
<u>Liabilities</u>		
Due to other governments	-	<u>\$ 1,546,607</u>
<u>Net Position</u>		
Net position, held in trust for pool participant	<u>\$ 92,529</u>	

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 11

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Investment Trust</u>
<u>Additions</u>	
Contributions from participants	\$ 71,942
<u>Deductions</u>	
Distributions to participants	<u>143,877</u>
Change in Net Position	\$ (71,935)
Net Position - January 1	<u>164,464</u>
Net Position - December 31	<u><u>\$ 92,529</u></u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012

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, 2012. 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.

A. Financial Reporting Entity

Cottonwood County was established May 23, 1857, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

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

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net 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.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

In the government-wide statement of net 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.

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category--governmental, proprietary, and fiduciary--are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as a separate column in the fund financial statements. The County reports all of its funds as major funds.

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

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

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

The Family Services Special Revenue Fund is used to account for restricted revenue sources from the federal, state, and other oversight agencies, as well as assigned property tax revenues from the County to be used for economic assistance and community social services programs.

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

The Building Capital Projects Fund is used to account for assigned property tax revenues and rental income to pay the cost of constructing and maintaining County buildings.

The County reports the following major enterprise fund:

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund types:

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

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

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Cottonwood County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net 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, 2012, 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 2012 were \$112,882.

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

3. Receivables and Payables

Activity between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (the current portion of interfund loans) or "advances to/from other funds" (the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

3. Receivables and Payables (Continued)

Advances between funds, as reported in the fund financial statements, are offset by a fund balance nonspendable account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All receivables are shown net of an allowance for uncollectibles.

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due May 15 and the second half payment due October 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

4. Special Assessments Receivable

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

5. Inventories

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

6. Restricted Assets

Certain funds of the County are classified as restricted assets on the statement of net 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.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Capital Assets

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

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

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

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

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Compensated Absences

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

9. Deferred Revenue

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

10. Long-Term Obligations

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

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Classification of Net Position

Net position in the government-wide and proprietary fund financial statements are 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 that is 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.

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.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

12. Classification of Fund Balances (Continued)

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.

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.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

13. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

For internal accounting purposes, individual ditch system records are maintained on a basis which shows long-term debt payable, recognizes special assessments as revenues when levied, and does not eliminate interfund transactions. Using this basis of accounting, 6 of 87 drainage systems have deficit fund balances at December 31, 2012.

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	\$ 759,837
Account balance deficits	<u>(259,198)</u>
Total	<u>\$ 500,639</u>

The Ditch Special Revenue Fund's deficit will be eliminated with future special assessment levies against benefited properties. The Ditch Special Revenue Fund had a fund balance of \$448,076 when reported on the modified accrual basis.

B. Deficit Fund Balance

The Road and Bridge Special Revenue Fund has a deficit fund balance of \$103,818 at December 31, 2012. The General Fund has advanced cash of \$353,110 to the Road and Bridge Special Revenue Fund as of December 31, 2012. The County intends to address this deficit with increased levy dollars and a possible fund transfer in 2013.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

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	\$ 9,555,585
Business-type activities	
Cash and pooled investments	202,571
Cash and pooled investments - restricted assets	1,736,594
Statement of fiduciary net position	
Cash and pooled investments	
Investment trust fund	92,529
Agency funds	<u>1,546,607</u>
 Total Cash and Investments	 <u>\$ 13,133,886</u>

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.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. 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.

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

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 \$127,000 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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Custodial Credit Risk (Continued)

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, 2012, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's policy 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, 2012, and information relating to potential investment risks:

Deposit/Investment Type	Credit Risk		Concentration Risk Over 5 Percent of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
	Credit Rating	Rating Agency			
Negotiable certificates of deposit	N/A	N/A	N/A	Various	\$ 6,449,499
Checking					6,059,037
Savings					525,000
Certificates of deposit					97,000
Petty cash					3,350
Total Cash and Investments					<u>\$ 13,133,886</u>

N/A - Not Applicable

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2012, 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	\$ 91,074	\$ -
Special assessments - prior	21,099	-
Special assessments - noncurrent	1,553,644	1,264,044
Accounts	61,775	-
Interest	26,020	-
Due from other governments	743,823	-
Total Governmental Activities	\$ 2,497,435	\$ 1,264,044
Business-Type Activities		
Accounts	\$ 34,227	\$ -
Due from other governments	50	-
Total Business-Type Activities	\$ 34,277	\$ -

Details on Loans Receivable

In 1989, Cottonwood County began a Seed Capital Loan Program with funds received from the Blandin Foundation, the Southwest Minnesota Initiative Fund, and local governments to provide low-interest, flexible-term loans for the development of new businesses or the expansion of existing ones. At December 31, 2012, there were no loans outstanding. Loan payments may be reloaned to other businesses. At December 31, 2012, the County has \$50,886 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. At December 31, 2012, the funds have not been paid by the County; this amount is recorded as committed fund balance in the General Fund.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 315,824	\$ -	\$ -	\$ 315,824
Right-of-way	795,883	200	-	796,083
Construction in progress	1,397	-	1,397	-
Total capital assets not depreciated	\$ 1,113,104	\$ 200	\$ 1,397	\$ 1,111,907
Capital assets depreciated				
Buildings	\$ 4,833,871	\$ -	\$ -	\$ 4,833,871
Machinery and equipment	6,060,628	931,422	639,007	6,353,043
Infrastructure	55,506,349	2,917,307	-	58,423,656
Total capital assets depreciated	\$ 66,400,848	\$ 3,848,729	\$ 639,007	\$ 69,610,570
Less: accumulated depreciation for				
Buildings	\$ 2,268,610	\$ 115,159	\$ -	\$ 2,383,769
Machinery and equipment	4,027,152	401,409	507,785	3,920,776
Infrastructure	14,489,099	1,136,999	-	15,626,098
Total accumulated depreciation	\$ 20,784,861	\$ 1,653,567	\$ 507,785	\$ 21,930,643
Total capital assets depreciated, net	\$ 45,615,987	\$ 2,195,162	\$ (131,222)	\$ 47,679,927
Governmental Activities Capital Assets, Net	\$ 46,729,091	\$ 2,195,362	\$ (132,619)	\$ 48,791,834

Business-Type Activities

	Beginning Balance (Restated)	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 163,882	\$ -	\$ -	\$ 163,882
Capital assets depreciated				
Buildings	\$ 23,700	\$ -	\$ -	\$ 23,700
Land improvements	1,847,626	515,459	-	2,363,085
Machinery and equipment	459,075	23,810	20,244	462,641
Total capital assets depreciated	\$ 2,330,401	\$ 539,269	\$ 20,244	\$ 2,849,426

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Business-Type Activities (Continued)

	Beginning Balance (Restated)	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	\$ 21,396	\$ 790	\$ -	\$ 22,186
Land improvements	1,735,481	64,664	-	1,800,145
Machinery and equipment	202,441	64,813	20,244	247,010
	<u>\$ 1,959,318</u>	<u>\$ 130,267</u>	<u>\$ 20,244</u>	<u>\$ 2,069,341</u>
Total accumulated depreciation				
Total capital assets depreciated, net	\$ 371,083	\$ 409,002	\$ -	\$ 780,085
	<u>\$ 534,965</u>	<u>\$ 409,002</u>	<u>\$ -</u>	<u>\$ 943,967</u>
Business-Type Activities Capital Assets, Net				

Included in the increase column is \$23,810 increase in assets and accumulated depreciation for the transfer into the fund of a fully depreciated asset.

The business-type capital asset beginning balance at January 1, 2012, was restated to reflect an understatement of land improvements and related accumulated depreciation in prior years due to landfill cells not included in capital assets. The following table summarizes the change:

	<u>Capital Assets</u>	<u>Net Position</u>
Balance - January 1, as previously reported	\$ 422,820	\$ 1,570,385
Restatement:		
Land improvements not recorded	\$ 1,847,626	\$ 1,847,626
Accumulated depreciation on land improvements	1,735,481	1,735,481
	<u>\$ 112,145</u>	<u>\$ 112,145</u>
Net restatement		
Balance - January 1, as restated	<u>\$ 534,965</u>	<u>\$ 1,682,530</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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

Governmental Activities		
General government	\$	54,785
Public safety		103,844
Highways and streets, including depreciation of infrastructure assets		1,462,719
Sanitation		1,248
Human services		20,983
Conservation of natural resources		2,268
Culture and recreation		7,720
		1,653,567
Total Depreciation Expense - Governmental Activities	\$	1,653,567
Business-Type Activities		
Landfill	\$	106,457

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2012, is as follows:

1. Advances To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Road and Bridge	\$ 353,110
General	Ditch	79,502
Total Advances To/From Other Funds		\$ 432,612

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

1. Advances To/From Other Funds (Continued)

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, 2012, consisted of the following:

Transfers to General Fund from Landfill Fund	\$ 12,500	Provide funds for recycling
Transfers to Road and Bridge Fund from General Fund	67,500	Provide funds for operations
Transfers to Landfill Fund from General Fund	<u>31,381</u>	Interest distribution
Total Interfund Transfers	<u>\$ 111,381</u>	

C. Liabilities

1. Payables

Payables at December 31, 2012, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	\$ 237,261	\$ 6,590
Salaries	251,144	3,665
Contracts	51,863	17,525
Due to other governments	<u>47,713</u>	<u>-</u>
Total Payables	<u>\$ 587,981</u>	<u>\$ 27,780</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Other Postemployment Benefits (OPEB)

Elected Officials' Benefits

Elected County officials and their dependents and surviving spouses are entitled to one year of paid health insurance for every two years of service to the County. There is no maximum number of years for officials elected prior to 1995. Those elected after 1995 are restricted to a maximum of six years of coverage and, as of February 10, 2004, the maximum was reduced to four years. As of January 1, 2004, the maximum monthly contribution was set at \$720. This post-service benefit is funded on a pay-as-you-go basis. The County had four elected officials who were eligible for this benefit in 2012. The cost for this program totaled \$37,164 in 2012.

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 \$15,916 for 2012.

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

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)		(670)
Adjustment to ARC		2,584
Annual OPEB cost (expense)	\$	39,347
Contributions made		(53,080)
Increase (decrease) in net OPEB obligation	\$	(13,733)
Net OPEB Obligation (Asset) - January 1		(67,018)
Net OPEB Obligation (Asset) - December 31	\$	(80,751)

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, 2010, 2011, and 2012, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation (Asset)
December 31, 2010	\$ 52,074	\$ 38,889	74.7%	\$ (50,734)
December 31, 2011	38,882	55,166	141.9	(67,018)
December 31, 2012	39,347	53,080	134.9	(80,751)

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.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Other Postemployment Benefits (OPEB)

Funded Status and Funding Progress (Continued)

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.

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, 2012, was 25 years.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. 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, 2012:

<u>Capital Lease</u>	<u>Final Maturity</u>	<u>Installment Amount</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2012</u>
2012 Case 1150K Dozer	2016	\$ 28,172	3.20	\$ 156,285	\$ 104,101
2012 John Deere Motor Graders	2019	60,736	3.05	377,077	<u>377,077</u>
Total Capital Lease Payable					<u>\$ 481,178</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2012, were as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2013	\$ 88,908
2014	88,907
2015	88,908
2016	88,907
2017	60,736
2018 - 2019	<u>121,472</u>
Total minimum lease payments	\$ 537,838
Less: amount representing interest	<u>(56,660)</u>
Present Value of Minimum Lease Payments	<u>\$ 481,178</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Long-Term Debt

Governmental Activities

Bonds Payable

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Average Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2012</u>
Special assessment bonds with government commitment					
2011 G.O. Drainage Refunding Bonds	2020	\$105,000 - \$160,000	2.0375	<u>\$ 1,090,000</u>	\$ 1,090,000
Add: unamortized premium					18,442
Less: deferred amount on refunding					<u>(22,760)</u>
Total Governmental Activities, Net					<u>\$ 1,085,682</u>

Loans Payable

In 1996, the County agreed to act as loan and project sponsor for a project loan agreement made under the Clean Water Partnership Law with the State of Minnesota through the Minnesota Pollution Control Agency (PCA) and the Brown-Nicollet-Cottonwood Project Joint Powers Board. The County is required to repay these funds to the PCA. 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.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities Continued)

5. Debt Service Requirements

Debt service requirements at December 31, 2012, were as follows:

Governmental Activities

Year Ending December 31	Special Assessment Bonds		Loans Payable	
	Principal	Interest	Principal	Interest
2013	\$ 160,000	\$ 20,518	\$ 142,276	\$ 7,277
2014	160,000	17,317	120,502	5,495
2015	160,000	14,118	101,093	4,016
2016	160,000	10,917	102,725	2,627
2017	120,000	8,118	59,644	1,318
2018 - 2022	330,000	10,438	116,655	1,622
2023 - 2025	-	-	6,548	-
Total	<u>\$ 1,090,000</u>	<u>\$ 81,426</u>	<u>\$ 649,443</u>	<u>\$ 22,355</u>

Clean water loans in the amount of \$209,229 are not included in the debt service requirements because a fixed repayment schedule is not available.

Current Debt Refunding

On December 1, 2011, the County issued \$1,090,000 of G.O. Drainage Refunding Bonds of 2011 with an average interest rate of 2.0375 percent to advance refund the G.O. Drainage Crossover Refunding Bonds of 2005 with an average interest rate of 3.5586 percent. The net proceeds of \$1,080,000 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 deduction from bonds payable, 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.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012, 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	\$ -	\$ -	\$ 1,090,000	\$ 160,000
Add: unamortized premium	21,050	-	2,608	18,442	-
Less: deferred amount on refunding	(27,313)	-	(4,553)	(22,760)	-
Total bonds payable	\$ 1,083,737	\$ -	\$ (1,945)	\$ 1,085,682	\$ 160,000
Loans payable	953,588	50,294	145,210	858,672	142,276
Capital lease	128,113	377,077	24,012	481,178	73,864
Compensated absences	740,588	-	43,633	696,955	37,566
Governmental Activities Long-Term Liabilities	<u>\$ 2,906,026</u>	<u>\$ 427,371</u>	<u>\$ 210,910</u>	<u>\$ 3,122,487</u>	<u>\$ 413,706</u>

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Estimated liability for landfill closure and postclosure care	\$ 1,248,315	\$ 24,465	\$ -	\$ 1,272,780	\$ -
Compensated absences	790	15,513	-	16,303	-
Business-Type Activities Long-Term Liabilities	<u>\$ 1,249,105</u>	<u>\$ 39,978</u>	<u>\$ -</u>	<u>\$ 1,289,083</u>	<u>\$ -</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

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 \$1,272,780 landfill closure and postclosure care liability at December 31, 2012, represents the cumulative amount reported to date based on the use of 66 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$666,613 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2012.

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, 2012, the County has \$1,736,594 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.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

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 \$460,000 per claim in 2012 and \$470,000 per claim in 2013. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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

6. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

6. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute. Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

6. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For all 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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

6. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

amount required by state statutes. General Employees Retirement Fund Basic Plan 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 2012:

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, 2012, 2011, and 2010, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2012	2011	2010
General Employees Retirement Fund	\$ 257,574	\$ 262,984	\$ 262,380
Public Employees Police and Fire Fund	77,395	78,044	73,683
Public Employees Correctional Fund	34,771	34,344	33,714

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

B. Defined Contribution Plan

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

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, 2012, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 4,992	\$ 4,992
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

7. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

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 2012, Cottonwood County contributed \$141,469 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 2012, Cottonwood and Jackson Counties entered into a temporary joint powers agreement in anticipation of forming the Cottonwood-Jackson 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.

Red Rock Rural Water System

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

The governing body is composed of nine members appointed to three-year terms by the District Court. Each county is responsible for levying and collecting the special assessments from the benefited properties within the county. The bond issue and notes payable are shown as long-term debt in the financial statements of the Red Rock Rural Water System. Outstanding governmental activities indebtedness at December 31, 2011 (the most current information available), amounted to \$13,555,000, and business-type indebtedness was \$203,588. The Water System's net assets increased by \$153,959 in 2011.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Red Rock Rural Water System (Continued)

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

Southwest Regional Solid Waste Commission

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

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

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

Southwestern Minnesota Adult Mental Health Consortium Board

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

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

The following is a summary of the Consortium Board's annual financial report for the year ended December 31, 2011 (the latest available):

Total assets	\$ 2,127,562
Total liabilities	564,148
Total net assets	1,563,414
Total revenues	3,744,479
Total expenses	4,103,387
Net decrease in net assets	(358,908)

The Consortium Board reported no long-term obligations at December 31, 2011.

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.

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 2012, Cottonwood County paid a total of \$290,914 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.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

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

C. Jointly-Governed Organizations

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

Area II Minnesota River Basin Project

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

Family Service Collaborative

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

Greater Blue Earth River Basin Alliance (GBERBA)

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

Minnesota River Board

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

Redwood-Cottonwood Rivers Control Area

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Rural Minnesota Energy Board

The Rural Minnesota Energy Board was established in 2005 to provide policy guidance on issues surrounding energy development in rural Minnesota and to foster the diversification of the economic climate in rural Minnesota. During 2012, Cottonwood County paid \$2,000 to the Board.

Southwest Minnesota Regional Radio Board

The Southwest Minnesota Regional Radio Board Joint Powers Board was established to formulate a regional radio board to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER). During 2012, Cottonwood County did not contribute to the Joint Powers Board.

D. Agriculture Best Management Loan Program

The County has entered into an agreement with the Minnesota Department of Agriculture and local lending institutions to jointly administer a loan program to individuals to implement projects that prevent or mitigate non-point source water pollution. While the County is not liable for repayment of the loans in any manner, it does have certain responsibilities under the agreement. The County has met those responsibilities for 2012.

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, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 3,777,049	\$ 3,777,049	\$ 3,925,869	\$ 148,820
Special assessments	193,000	193,000	333,451	140,451
Licenses and permits	8,060	8,060	13,594	5,534
Intergovernmental	1,000,800	1,274,800	1,475,360	200,560
Charges for services	327,500	327,500	339,868	12,368
Fines and forfeits	11,500	11,500	6,681	(4,819)
Gifts and contributions	52,000	52,000	3,764	(48,236)
Investment earnings	240,100	240,100	112,882	(127,218)
Miscellaneous	133,905	133,905	279,966	146,061
Total Revenues	\$ 5,743,914	\$ 6,017,914	\$ 6,491,435	\$ 473,521
Expenditures				
Current				
General government				
Commissioners	\$ 274,417	\$ 274,417	\$ 279,183	\$ (4,766)
Courts	23,900	23,900	23,672	228
Law library	6,676	6,676	12,977	(6,301)
Auditor/treasurer	466,757	466,757	463,824	2,933
Assessor	332,982	332,982	311,329	21,653
Elections	114,597	114,597	115,013	(416)
Attorney	283,373	308,373	257,535	50,838
Recorder	178,469	178,469	183,501	(5,032)
Building and plant	144,055	144,055	144,021	34
Veterans service officer	92,880	92,880	88,199	4,681
Transit	140,958	140,958	146,991	(6,033)
Other general government	166,672	166,723	154,796	11,927
Total general government	\$ 2,225,736	\$ 2,250,787	\$ 2,181,041	\$ 69,746
Public safety				
Sheriff	\$ 1,301,220	\$ 1,301,220	\$ 1,269,090	\$ 32,130
Emergency services	85,319	85,319	91,044	(5,725)
Coroner	10,700	10,700	16,999	(6,299)
Safety program	2,000	2,000	750	1,250
Jail	856,902	856,902	805,977	50,925
Probation and parole	100,081	100,081	144,901	(44,820)
Total public safety	\$ 2,356,222	\$ 2,356,222	\$ 2,328,761	\$ 27,461
Sanitation				
Recycling	\$ 240,582	\$ 575,701	\$ 575,284	\$ 417
Health				
Community health	\$ 11,125	\$ 11,125	\$ 10,119	\$ 1,006

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, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Culture and recreation				
Parks	\$ 63,784	\$ 63,784	\$ 74,459	\$ (10,675)
Regional library	56,967	56,967	56,967	-
Total culture and recreation	\$ 120,751	\$ 120,751	\$ 131,426	\$ (10,675)
Conservation of natural resources				
Extension	\$ 128,775	\$ 128,775	\$ 123,237	\$ 5,538
Soil and water conservation	100,636	100,636	94,211	6,425
Water planning	135,763	135,763	139,310	(3,547)
Water quality loan program	-	-	86,555	(86,555)
Environmental services	104,640	104,640	99,269	5,371
Total conservation of natural resources	\$ 469,814	\$ 469,814	\$ 542,582	\$ (72,768)
Intergovernmental				
Health	\$ 129,869	\$ 168,000	\$ 172,469	\$ (4,469)
Debt service				
Principal	\$ -	\$ -	\$ 145,210	\$ (145,210)
Interest	\$ -	\$ -	\$ 9,143	\$ (9,143)
Total Expenditures	\$ 5,554,099	\$ 5,952,400	\$ 6,096,035	\$ (143,635)
Excess of Revenues Over (Under)				
Expenditures	\$ 189,815	\$ 65,514	\$ 395,400	\$ 329,886
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 12,500	\$ 12,500
Transfers out	-	67,500	(98,881)	(166,381)
Loans	-	-	50,294	50,294
Total Other Financing Sources (Uses)	\$ -	\$ 67,500	\$ (36,087)	\$ (103,587)
Net Change in Fund Balance	\$ 189,815	\$ 133,014	\$ 359,313	\$ 226,299
Fund Balance - January 1	7,366,386	7,366,386	7,366,386	-
Fund Balance - December 31	\$ 7,556,201	\$ 7,499,400	\$ 7,725,699	\$ 226,299

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,144,000	\$ 1,144,000	\$ 1,145,517	\$ 1,517
Special assessments	-	-	59	59
Intergovernmental	4,054,623	4,054,623	4,684,583	629,960
Charges for services	-	-	85,660	85,660
Miscellaneous	90,800	90,800	107,440	16,640
Total Revenues	\$ 5,289,423	\$ 5,289,423	\$ 6,023,259	\$ 733,836
Expenditures				
Current				
Highways and streets				
Administration	\$ 211,262	\$ 211,262	\$ 231,299	\$ (20,037)
Maintenance	1,288,939	1,292,306	968,786	323,520
Construction	2,562,551	2,562,551	3,043,763	(481,212)
Equipment and maintenance shops	1,027,671	1,078,938	1,402,187	(323,249)
Material and services for resale	-	141,950	142,552	(602)
Total highways and streets	\$ 5,090,423	\$ 5,287,007	\$ 5,788,587	\$ (501,580)
Intergovernmental				
Highways and streets	\$ 324,000	\$ 324,000	\$ 337,911	\$ (13,911)
Debt service				
Principal	\$ -	\$ -	\$ 24,012	\$ (24,012)
Interest	-	-	4,160	(4,160)
Total debt service	\$ -	\$ -	\$ 28,172	\$ (28,172)
Total Expenditures	\$ 5,414,423	\$ 5,611,007	\$ 6,154,670	\$ (543,663)
Excess of Revenues Over (Under) Expenditures	\$ (125,000)	\$ (321,584)	\$ (131,411)	\$ 190,173
Other Financing Sources (Uses)				
Transfers in	\$ 125,000	\$ 125,000	\$ 67,500	\$ (57,500)
Capital lease	-	-	377,077	377,077
Proceeds from sale of assets	-	-	42,315	42,315
Total Other Financing Sources (Uses)	\$ 125,000	\$ 125,000	\$ 486,892	\$ 361,892
Net Change in Fund Balance	\$ -	\$ (196,584)	\$ 355,481	\$ 552,065
Fund Balance - January 1	(596,680)	(596,680)	(596,680)	-
Increase (decrease) in inventories	-	-	137,381	137,381
Fund Balance - December 31	\$ (596,680)	\$ (793,264)	\$ (103,818)	\$ 689,446

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

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,109,760	\$ 2,109,760	\$ 2,109,761	\$ 1
Intergovernmental	1,854,397	1,854,397	1,683,810	(170,587)
Charges for services	48,000	48,000	47,706	(294)
Miscellaneous	391,017	391,017	406,586	15,569
Total Revenues	<u>\$ 4,403,174</u>	<u>\$ 4,403,174</u>	<u>\$ 4,247,863</u>	<u>\$ (155,311)</u>
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,088,179	\$ 1,088,179	\$ 1,064,260	\$ 23,919
Social services	3,314,995	3,314,995	3,057,748	257,247
Total Expenditures	<u>\$ 4,403,174</u>	<u>\$ 4,403,174</u>	<u>\$ 4,122,008</u>	<u>\$ 281,166</u>
Net Change in Fund Balance	\$ -	\$ -	\$ 125,855	\$ 125,855
Fund Balance - January 1	<u>1,170,941</u>	<u>1,170,941</u>	<u>1,170,941</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 1,170,941</u></u>	<u><u>\$ 1,170,941</u></u>	<u><u>\$ 1,296,796</u></u>	<u><u>\$ 125,855</u></u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT A-4

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2012**

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

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2012

1. General Budget Policies

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

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

2. Budget Basis of Accounting

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

3. Budget Amendments

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

Revenues	Original Budget	Increase (Decrease)	Final Budget
General Fund	\$ 5,743,914	\$ 274,000	\$ 6,017,914
Expenditures	Original Budget	Increase (Decrease)	Final Budget
General Fund	\$ 5,554,099	\$ 398,301	\$ 5,952,400
Road and Bridge Special Revenue Fund	5,414,423	196,584	5,611,007

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

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, 2012:

<u>Fund</u>	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 6,096,035	\$ 5,952,400	\$ 143,635
Road and Bridge Special Revenue Fund	6,154,670	5,611,007	543,663

The expenditures in excess of budget were funded by unbudgeted revenues and fund balance. The Road and Bridge Special Revenue Fund expenditures in excess of budget were also funded by transfers from the General Fund. The primary reasons for the excess expenditures in the General Fund were attributable to the unbudgeted Water Quality Loan program and Debt Service expenditures. The primary reasons for the excess expenditures in the Road and Bridge Special Revenue Fund were attributable to various unbudgeted increases for construction and for capital leases expenditures.

5. Other Postemployment Benefits Funded Status

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

SUPPLEMENTARY INFORMATION

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT B-1

**BUDGETARY COMPARISON SCHEDULE
BUILDING CAPITAL PROJECTS FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 50,000	\$ 50,000	\$ 96,928	\$ 46,928
Miscellaneous	65,400	65,400	65,400	-
Total Revenues	\$ 115,400	\$ 115,400	\$ 162,328	\$ 46,928
Expenditures				
Current				
General government				
Buildings and plant	65,400	65,400	51,786	13,614
Net Change in Fund Balance	\$ 50,000	\$ 50,000	\$ 110,542	\$ 60,542
Fund Balance - January 1	69,814	69,814	69,814	-
Fund Balance - December 31	\$ 119,814	\$ 119,814	\$ 180,356	\$ 60,542

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<u>AGENCY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>266,253</u>	\$ <u>647,369</u>	\$ <u>677,897</u>	\$ <u>235,725</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>266,253</u>	\$ <u>647,369</u>	\$ <u>677,897</u>	\$ <u>235,725</u>
 <u>MENTAL HEALTH CONSORTIUM</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>1,177,950</u>	\$ <u>8,600,286</u>	\$ <u>8,799,440</u>	\$ <u>978,796</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>1,177,950</u>	\$ <u>8,600,286</u>	\$ <u>8,799,440</u>	\$ <u>978,796</u>
 <u>MORTGAGE REGISTRY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>4,473</u>	\$ <u>101,257</u>	\$ <u>102,061</u>	\$ <u>3,669</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>4,473</u>	\$ <u>101,257</u>	\$ <u>102,061</u>	\$ <u>3,669</u>

**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, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<u>STATE DEED TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>16,562</u>	\$ <u>230,556</u>	\$ <u>180,955</u>	\$ <u>66,163</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>16,562</u>	\$ <u>230,556</u>	\$ <u>180,955</u>	\$ <u>66,163</u>
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>106,184</u>	\$ <u>17,819,424</u>	\$ <u>17,663,354</u>	\$ <u>262,254</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>106,184</u>	\$ <u>17,819,424</u>	\$ <u>17,663,354</u>	\$ <u>262,254</u>
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>1,571,422</u>	\$ <u>27,398,892</u>	\$ <u>27,423,707</u>	\$ <u>1,546,607</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>1,571,422</u>	\$ <u>27,398,892</u>	\$ <u>27,423,707</u>	\$ <u>1,546,607</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2012**

Shared Revenue

State

Highway users tax	\$ 4,274,060
County program aid	256,500
PERA rate reimbursement	17,411
Disparity reduction aid	43,251
Police aid	58,253
Enhanced 911	83,375
Market value credit	144,490
	144,490

Total shared revenue **\$ 4,877,340**

Reimbursement for Services

State

Minnesota Department of Human Services	\$ 293,890
	293,890

Payments

Local

Payments in lieu of taxes	\$ 213,005
	213,005

Grants

State

Minnesota Department/Board of	
Corrections	\$ 20,428
Public Safety	273,475
Transportation	350,702
Human Services	614,448
Natural Resources	5,651
Veterans Affairs	1,400
Water and Soil Resources	68,180
Pollution Control Agency	55,950
	55,950

Total state **\$ 1,390,234**

Federal

Department of	
Agriculture	\$ 70,688
Commerce	6,000
Transportation	85,310
Health and Human Services	747,671
Homeland Security	159,615
	159,615

Total federal **\$ 1,069,284**

Total state and federal grants **\$ 2,459,518**

Total Intergovernmental Revenue **\$ 7,843,753**

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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	\$ <u>70,688</u>
U.S. Department of Commerce		
Passed Through Lyon County Public Safety Interoperable Communications Grant Program	11.555	\$ <u>6,000</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 4,102
Formula Grants for Other Than Urbanized Areas	20.509	33,878
Passed Through City of Worthington Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	<u>2,265</u>
Total U.S. Department of Transportation		\$ <u>40,245</u>
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	\$ 1,387
Temporary Assistance for Needy Families (TANF) Cluster TANF	93.558	89,927
Emergency Contingency Fund for TANF State Program - ARRA	93.714	2,844
Child Support Enforcement	93.563	158,881
Refugee and Entrant Assistance - State-Administered Programs	93.566	175
Child Care and Development Block Grant	93.575	2,781
Stephanie Tubbs Jones Child Welfare Services Program	93.645	347
Foster Care - Title IV-E	93.658	12,024
Social Services Block Grant	93.667	119,111
Chafee Foster Care Independence Program	93.674	6,634
Children's Health Insurance Program	93.767	26
Medical Assistance Program	93.778	<u>353,534</u>
Total U.S. Department of Health and Human Services		\$ <u>747,671</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ 78,077
Emergency Management Performance Grants	97.042	42,720
Direct		
Interoperable Emergency Communications	97.055	1,408
Passed Through Lyon County		
Homeland Security Grant Program	97.067	35,746
Passed Through Murray County		
Homeland Security Grant Program	97.067	1,664
(Total Homeland Security Grant Program 97.067 \$37,410)		
Total U.S. Department of Homeland Security		\$ 159,615
Total Federal Awards		\$ 1,024,219

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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, 2012. 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. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Temporary Assistance for Needy Families (TANF) Cluster	\$ 92,771
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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue Deferred in 2011, recognized as revenue in 2012	\$ 1,069,284
Highway Planning and Construction	<u>(45,065)</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 1,024,219</u>

6. Subrecipients

During 2012, the County did not pass any federal money to subrecipients.

7. American Recovery and Reinvestment Act

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

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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:

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 low-risk auditee? **No**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

00-3 Annual Adopted Budget and Budget Policy

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

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

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

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

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

Recommendation: We recommend that the County Board develop and adopt budget policies and procedures to include the following elements:

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

Client's Response:

The County is working on a budget policy.

06-2 Capital Assets Policies and Procedures

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

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

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

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

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

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

Client's Response:

The County will comply.

06-6 Audit Adjustments

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

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

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

Effect: Audit adjustments were necessary to reverse a loan receivable approved but not yet paid, to adjust capital assets records, and to record a new capital lease.

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

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

Client's Response:

The County will comply.

11-1 Recording Additions to Capital Assets

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

Condition: Capital assets acquired during 2011 and 2012 were omitted from the County's records of capital assets.

Context: The County maintains its capital assets records using the ACS Capital Assets program. Capital asset additions and deletions are entered to this system, and depreciation is calculated by the system. During 2012, corrections were made for capital assets omitted during 2011; however, the County did not record the 2012 construction costs of Cell 7 at the County Landfill.

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

Cause: County personnel did not consider the construction of a new cell at the County Landfill in its determination of capital asset additions during 2012.

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

Client's Response:

The County will review the policy to see where improvements could be made.

ITEM ARISING THIS YEAR

12-1 Prior Period Adjustment

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. One indication of a material weakness in internal control is restatement of previously issued financial statements to reflect the correction of a material misstatement due to error.

Condition: The County's 2012 financial statements reflect a prior period adjustment to restate the January 1, 2012, net position and capital assets of the Landfill Enterprise Fund and of the business-type activities.

Context: The need for prior period adjustments can raise doubts as to the reliability of the County's financial information being presented.

Effect: The January 1, 2012, net position and capital assets of the Landfill Enterprise Fund and of the business-type activities were restated by a net amount of \$112,145 to account for the construction and accumulated depreciation of Cells 1 through 6, which had not been recorded in previous years. All six cells are fully depreciated at December 31, 2012.

Cause: County personnel did not consider the construction of cells at the County Landfill in their determination of capital assets and related depreciation amounts.

Recommendation: We recommend the County review its procedures for preparation and disclosure of financial information to ensure accurate presentation in the financial statements. All County staff must fully and timely communicate transactions that have taken place to the accounting staff in order for the accounting staff to properly record, as necessary, the transactions on the general ledger and on other financial records.

Client's Response:

The County will review its procedures.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEM RESOLVED

Federal Highway Projects Not Finalized (11-2)

The County had federally funded highway construction projects where appropriate construction finalizing procedures had not been completed.

Resolution

The County highway department received notice from the Minnesota Department of Transportation that all federal highway projects had been finalized.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-6 Individual Ditch System Deficits

Criteria: Drainage system costs are required by Minn. Stat. § 103E.655 to 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, 2012.

Context: At December 31, 2012, one ditch system had a negative cash balance of \$64,960, and six ditch systems had deficit fund balances totaling \$259,198.

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 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 Ditch Authority is working to eliminate all deficits.

11-3

Insufficient Federal Deposit Insurance Corporation (FDIC) Coverage

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

Condition: There were two instances where the County held negotiable certificates of deposit (CDs) in excess of the FDIC coverage available for each depository.

Context: The amount of the time deposits not covered by sufficient FDIC coverage totaled \$127,000 at December 31, 2012.

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

Cause: Purchases of multiple CDs from the same bank were made within a short timeframe, and the listing of purchased CDs was not updated after each purchase.

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:

Procedures have been modified to eliminate this potential problem.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

09-4 Road and Bridge Deficit Fund Balance

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

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

Context: As of December 31, 2012, the Road and Bridge Special Revenue Fund had a deficit fund balance of \$103,818, which is a decrease from the \$596,680 deficit reported in the prior year.

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

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

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

Client's Response:

The deficit has been resolved through a fund transfer.



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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, 2012, 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 2, 2013.

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 may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

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 deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 06-6 and 12-1 to be material weaknesses.

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 deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 00-3, 06-2, and 11-1 to be significant deficiencies.

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

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 96-6 and 11-3. 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.

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

Cottonwood County's responses to the internal control, legal compliance, and management practices findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The County's responses were not subject 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

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

May 2, 2013

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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, 2012. 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, 2012.

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 our 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 a 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.

This 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

REBECCA OTTO
STATE AUDITOR

May 2, 2013

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR