

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

COTTONWOOD COUNTY
WINDOM, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2007

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, 2007



**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
2007

Office	Name	Term Expires
Commissioners		
1st District	Gary Sorenson	January 2011
2nd District	Ron Kuecker	January 2009
3rd District	Tom White	January 2011
4th District	Norm Holmen ¹	January 2009
5th District	John Oeltjenbruns ²	January 2011
Officials		
Elected		
Attorney	L. Douglas Storey	January 2011
Auditor/Treasurer	Jan Johnson	January 2011
County Recorder	Kathleen Kretsch	January 2011
Sheriff	Jason Purrington	January 2011
Appointed		
Assessor	Gale Bondhus	December 31, 2012
Highway Engineer	Ronald Gregg	Indefinite
Veterans Service Officer	Todd Dibble	Indefinite
Environmental Officer	Mike Hanson	Indefinite
Emergency Services Director	Mark Marcy	Indefinite
Family Service Director	Craig Myers	Indefinite

¹Chair 2007

²Chair 2008

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REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Cottonwood County

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Cottonwood County as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic 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, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison schedules 1 through 4 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of Cottonwood County. The statement and schedules listed as supplementary information in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of Cottonwood County. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2009 on our consideration of Cottonwood County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

January 22, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007
(Unaudited)**

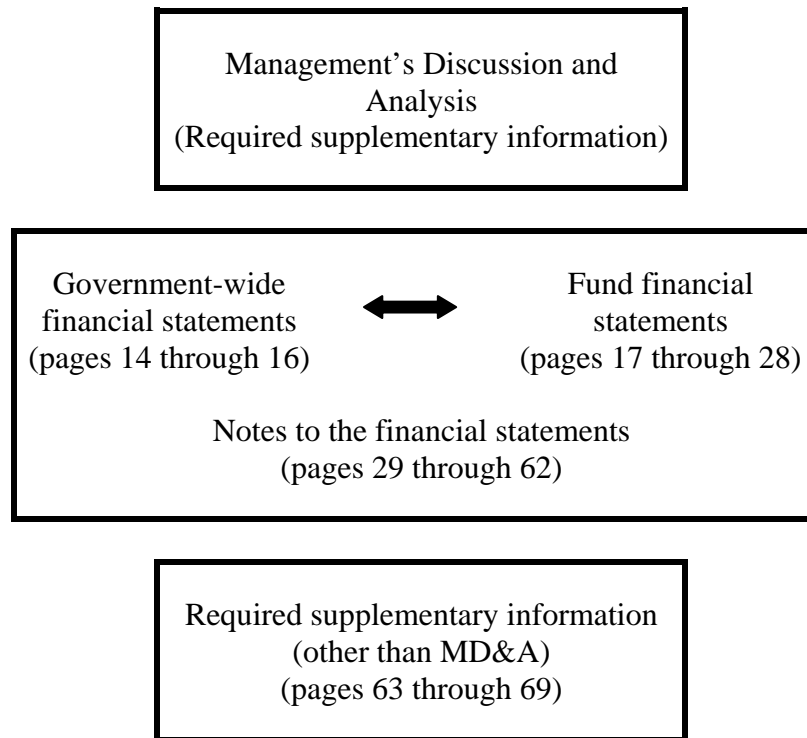
Cottonwood County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2007. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements (beginning on page 14).

FINANCIAL HIGHLIGHTS

- Governmental activities' net assets are \$47,902,094, of which \$40,151,259 is invested in capital assets, net of related debt, leaving \$1,006,509 of the governmental activities' net assets restricted for specific uses and \$6,744,326 as unrestricted.
- Business-type activities have total assets of \$2,827,605. Capital assets are \$404,991, 26.5 percent of business-type net assets of \$1,530,003.
- Cottonwood County's net assets increased by \$2,888,994 for the year ended December 31, 2007. Of the increase, \$2,592,394 was in the governmental activities' net assets; \$296,600 represented the increase in business-type activities' net assets.
- The net cost of governmental activities was \$4,780,195 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$7,372,589.
- Governmental funds' fund balances decreased by \$1,956,976. This net decrease was due mainly to the expenditure of escrowed funds for refunding drainage bonds.

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 certain budgetary comparison schedules are required to accompany the basic financial statements and, therefore, are included as required supplementary information. The following chart demonstrates how the different pieces are interrelated.



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

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

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

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

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

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

Fund Financial Statements

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

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

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

Reporting the County's Fiduciary Responsibilities

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

THE COUNTY AS A WHOLE

The County's combined net assets are \$49,432,097. Looking at the net assets and net expenses of governmental and business-type activities separately, however, two different stories emerge. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the County's governmental and business-type activities.

Table 1
Net Assets

	2007			2006 (Restated)
	Governmental Activities	Business-Type Activities	Total	
Assets				
Current and other assets	\$ 12,275,937	\$ 2,422,614	\$ 14,698,551	\$ 16,160,784
Capital assets	40,201,983	404,991	40,606,974	38,522,609
Total Assets	\$ 52,477,920	\$ 2,827,605	\$ 55,305,525	\$ 54,683,393
Liabilities				
Long-term liabilities	\$ 3,805,504	\$ 1,289,667	\$ 5,095,171	\$ 7,356,971
Other liabilities	770,322	7,935	778,257	783,319
Total Liabilities	\$ 4,575,826	\$ 1,297,602	\$ 5,873,428	\$ 8,140,290
Net Assets				
Invested in capital assets, net of related debt	\$ 40,151,259	\$ 404,991	\$ 40,556,250	\$ 38,455,715
Restricted	1,006,509	1,510,129	2,516,638	4,380,292
Unrestricted	6,744,326	(385,117)	6,359,209	3,707,096
Total Net Assets	\$ 47,902,094	\$ 1,530,003	\$ 49,432,097	\$ 46,543,103

Net assets of the County's governmental activities were \$47,902,094. Unrestricted net assets--the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements--were \$6,744,326 at the end of the year. The net assets of business-type activities were \$1,530,003.

Table 2
Changes in Net Assets
(in Thousands)

	2007			2006 (Restated)
	Governmental Activities	Business-Type Activities	Total	
Revenues				
Program revenues				
Fees, fines, and charges	\$ 2,094	\$ 423	\$ 2,517	\$ 1,888
Operating grants and contributions	3,914	9	3,923	4,454
Capital grants and contributions	2,102	-	2,102	1,789
General revenues				
Property taxes	5,266	91	5,357	5,197
Other taxes	8	-	8	5
Grants, gifts, and miscellaneous	2,208	-	2,208	2,219
Total Revenues	\$ 15,592	\$ 523	\$ 16,115	\$ 15,552
Expenses				
General government	\$ 2,321	\$ -	\$ 2,321	\$ 2,838
Public safety	1,809	-	1,809	1,603
Highways and streets	3,272	-	3,272	2,846
Sanitation	229	-	229	204
Human services	4,184	-	4,184	4,499
Health	128	-	128	110
Culture and recreation	212	-	212	212
Conservation of natural resources	673	-	673	845
Interest	62	-	62	188
Landfill	-	336	336	237
Total Expenses	\$ 12,890	\$ 336	\$ 13,226	\$ 13,582
Increase (Decrease) Before Transfers	\$ 2,702	\$ 187	\$ 2,889	\$ 1,970
Transfers	(110)	110	-	-
Increase (Decrease) in Net Assets	\$ 2,592	\$ 297	\$ 2,889	\$ 1,970
Net Assets - January 1, restated	45,310	1,233	46,543	44,573
Net Assets - December 31	\$ 47,902	\$ 1,530	\$ 49,432	\$ 46,543

The County's activities increased net assets by 6.21 percent (\$49,432,097 for 2007 compared to \$46,543,103 for 2006).

TOTAL COUNTY REVENUE

Governmental Activities

Revenues for the County's governmental activities were \$15,592,271, while total expenses were \$12,889,677, and transfers out were \$110,200. This reflects a \$2,592,394 increase in net assets for the year ended December 31, 2007.

Business-Type Activities

Revenues of the County's business-type activities (see Table 2) were \$522,457, transfers in were \$110,200, and expenses were \$336,057. Increased landfill revenues are mainly responsible for the \$296,600 increase in net assets for the year ending December 31, 2007.

Governmental Activities' Expenses

The cost of all County activities this year was \$13,225,734. However, as shown in the Statement of Activities on pages 15 and 16, the amount that taxpayers ultimately financed for these activities through County taxes was \$4,684,402, because some of the cost was paid by those who directly benefited from the programs (\$2,516,518) or by other governments and organizations that subsidized certain programs with grants and contributions (\$6,024,814).

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

Table 3
Governmental Activities
(in Thousands)

	Total Cost of Services 2007	Net Cost of Services 2007
Human services	\$ 4,184	\$ 1,781
Highways and streets	3,272	(220)
General government	2,321	1,838
Public safety	1,809	1,512
Conservation of natural resources	673	(433)
All others	631	302
Totals	<u>\$ 12,890</u>	<u>\$ 4,780</u>

THE COUNTY'S FUNDS

As the County completed the year, its governmental funds (as presented in the Balance Sheet on pages 17 through 18) reported a combined fund balance of \$7,988,356, which is below last year's total of \$10,126,386. The governmental funds' change in fund balance (a decrease of \$1,956,976 for 2007) represents a 19.33 percent decrease in governmental fund balances. Most of the governmental funds' decrease is due to the expenditure of escrowed drainage refunding bond proceeds.

General Fund Budgetary Highlights

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

Even with these adjustments, the actual charges to appropriations (expenditures) were \$341,308 above the final budget amounts. The reason for significant variances of actual expenditures from final budget is expenditures made from departments without budgeted expenses and unbudgeted programs, such as the County low-interest septic loan program.

On the other hand, resources available for appropriation were also \$328,014 above the final budgeted amount. Increased investment earnings helped to offset unbudgeted expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2007, the County had \$40,606,974 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 \$2,084,365, or 5.4 percent, over last year.

Table 4
Changes in Capital Assets During 2007

Governmental Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 311,551	\$ -	\$ -	\$ 311,551
Right-of-way	697,549	55,660	-	753,209
Construction in progress	<u>719,532</u>	<u>617,023</u>	<u>718,135</u>	<u>618,420</u>
Total capital assets not depreciated	<u>\$ 1,728,632</u>	<u>\$ 672,683</u>	<u>\$ 718,135</u>	<u>\$ 1,683,180</u>

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets depreciated				
Buildings	\$ 4,085,096	\$ 250,000	\$ -	\$ 4,335,096
Machinery and equipment	4,526,140	389,602	70,094	4,845,648
Infrastructure	<u>42,095,622</u>	<u>2,804,608</u>	<u>-</u>	<u>44,900,230</u>
Total capital assets depreciated	<u>\$ 50,706,858</u>	<u>\$ 3,444,210</u>	<u>\$ 70,094</u>	<u>\$ 54,080,974</u>
Less: accumulated depreciation for				
Buildings	\$ 1,722,733	\$ 93,780	\$ -	\$ 1,816,513
Machinery and equipment	2,958,707	304,201	70,094	3,192,814
Infrastructure	<u>9,670,620</u>	<u>882,224</u>	<u>-</u>	<u>10,552,844</u>
Total accumulated depreciation	<u>\$ 14,352,060</u>	<u>\$ 1,280,205</u>	<u>\$ 70,094</u>	<u>\$ 15,562,171</u>
Total capital assets depreciated, net	<u>\$ 36,354,798</u>	<u>\$ 2,164,005</u>	<u>\$ -</u>	<u>\$ 38,518,803</u>
Governmental Activities Capital Assets, Net	<u>\$ 38,083,430</u>	<u>\$ 2,836,688</u>	<u>\$ 718,135</u>	<u>\$ 40,201,983</u>

Business-Type Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 163,882	\$ -	\$ -	\$ 163,882
Capital assets depreciated				
Buildings	\$ 23,700	\$ -	\$ -	\$ 23,700
Machinery and equipment	<u>462,967</u>	<u>41,693</u>	<u>-</u>	<u>504,660</u>
Total capital assets depreciated	<u>\$ 486,667</u>	<u>\$ 41,693</u>	<u>\$ -</u>	<u>\$ 528,360</u>
Less: accumulated depreciation for				
Buildings	\$ 17,446	\$ 790	\$ -	\$ 18,236
Machinery and equipment	<u>193,924</u>	<u>75,091</u>	<u>-</u>	<u>269,015</u>
Total accumulated depreciation	<u>\$ 211,370</u>	<u>\$ 75,881</u>	<u>\$ -</u>	<u>\$ 287,251</u>
Total capital assets depreciated, net	<u>\$ 275,297</u>	<u>\$ (34,188)</u>	<u>\$ -</u>	<u>\$ 241,109</u>
Business-Type Activities Capital Assets, Net	<u>\$ 439,179</u>	<u>\$ (34,188)</u>	<u>\$ -</u>	<u>\$ 404,991</u>

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

The County's fiscal year 2007 capital budget called for it to spend \$1,998,000 on highway and bridge construction and \$236,900 on road and bridge equipment purchases, all to be financed with resources on hand in existing County funds. For the other projects, it used resources on hand in the County's Road and Bridge Special Revenue Fund.

Debt

At the end of the current fiscal year, the County had total outstanding debt of \$5,095,171, versus \$7,356,971 last year--a decrease of 30.75 percent--as shown in Table 5.

Table 5
Changes in Outstanding Debt During 2007

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable (fund liquidating the debt)					
Tax increment (Debt Service)	\$ 195,000	\$ -	\$ 195,000	\$ -	\$ -
Special assessment debt with government commitment (Ditch)	3,880,000	-	1,980,000	1,900,000	170,000
Less: unamortized discount	<u>(27,844)</u>	<u>-</u>	<u>(2,999)</u>	<u>(24,845)</u>	<u>(2,485)</u>
Total bonds payable	\$ 4,047,156	\$ -	\$ 2,172,001	\$ 1,875,155	\$ 167,515
Loans payable	1,348,540	94,117	193,747	1,248,910	171,001
Capital lease	66,894	-	16,170	50,724	16,284
Compensated absences	<u>545,408</u>	<u>85,307</u>	<u>-</u>	<u>630,715</u>	<u>45,475</u>
Governmental Activities Long-Term Liabilities	<u>\$ 6,007,998</u>	<u>\$ 179,424</u>	<u>\$ 2,381,918</u>	<u>\$ 3,805,504</u>	<u>\$ 400,275</u>

Business-Type Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable					
General obligation bonds	\$ 225,000	\$ -	\$ 75,000	\$ 150,000	\$ 75,000
Less: unamortized discount	<u>(2,482)</u>	<u>-</u>	<u>(1,241)</u>	<u>(1,241)</u>	<u>(1,241)</u>
Total bonds payable	\$ 222,518	\$ -	\$ 73,759	\$ 148,759	\$ 73,759
Estimated liability for landfill closure and postclosure care	1,112,347	12,345	-	1,124,692	-
Compensated absences	<u>14,108</u>	<u>2,108</u>	<u>-</u>	<u>16,216</u>	<u>-</u>
Business-Type Activities Long-Term Liabilities	<u>\$ 1,348,973</u>	<u>\$ 14,453</u>	<u>\$ 73,759</u>	<u>\$ 1,289,667</u>	<u>\$ 73,759</u>

The County's general obligation bond rating is currently an A3. This rating is assigned by national rating agencies. The state limits the amount of net debt that counties can issue to two percent of the market value of all taxable property (\$1,321,346,300) in the county. The County's outstanding net debt (\$5,095,171) is significantly below this state-imposed limit.

During 2007, the County did not purchase commercial insurance for employee health and dental coverage and has incurred but not paid claims of \$65,033 outstanding at year-end, compared with \$139,342 last year. Effective January 1, 2008, the County is purchasing commercial insurance through the Southwest West Central Coop. Other obligations include accrued vacation pay and sick leave payable.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2008 budget, tax rates, and fees that will be charged for the business-type activities.

- Cottonwood County is anticipating no reduction of state aids to local governments. The County will be able to maintain a stable service environment if no state reductions are implemented.
- County General Fund expenditures for 2008 are budgeted to decrease 1.8 percent from 2007.
- Property taxes levied have increased 5.405 percent for 2008.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2007**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Cash and pooled investments	\$ 8,006,016	\$ 887,910	\$ 8,893,926
Receivables - net	4,059,787	27,607	4,087,394
Internal balances	3,032	(3,032)	-
Inventories	171,831	-	171,831
Prepaid items	14,591	-	14,591
Restricted assets			
Cash and pooled investments	-	1,509,583	1,509,583
Taxes receivable - prior	-	546	546
Deferred charges	20,680	-	20,680
Capital assets			
Non-depreciable capital assets	1,683,180	163,882	1,847,062
Depreciable capital assets - net of accumulated depreciation	38,518,803	241,109	38,759,912
Total Assets	\$ 52,477,920	\$ 2,827,605	\$ 55,305,525
<u>Liabilities</u>			
Accounts payable and other current liabilities	\$ 744,040	\$ 7,935	\$ 751,975
Accrued interest payable	26,282	-	26,282
Long-term liabilities			
Due within one year	402,760	73,759	476,519
Due in more than one year	3,402,744	1,215,908	4,618,652
Total Liabilities	\$ 4,575,826	\$ 1,297,602	\$ 5,873,428
<u>Net Assets</u>			
Invested in capital assets - net of related debt	\$ 40,151,259	\$ 404,991	\$ 40,556,250
Restricted for			
Public safety	215,634	-	215,634
Human services	45,720	-	45,720
Highways and streets	354,366	-	354,366
Debt service	-	1,964	1,964
Conservation of natural resources	154,500	-	154,500
Economic development	25,886	-	25,886
Postclosure	-	1,508,165	1,508,165
Other purposes	210,403	-	210,403
Unrestricted	6,744,326	(385,117)	6,359,209
Total Net Assets	\$ 47,902,094	\$ 1,530,003	\$ 49,432,097

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Expenses	Fees, Charges, Fines, and Other
Functions/Programs		
Governmental activities		
General government	\$ 2,320,826	\$ 297,450
Public safety	1,808,737	108,026
Highways and streets	3,271,718	110,450
Sanitation	229,156	201,452
Human services	4,183,942	511,858
Health	127,800	-
Culture and recreation	211,659	44,293
Conservation of natural resources	673,142	820,383
Interest	62,697	-
Total governmental activities	\$ 12,889,677	\$ 2,093,912
Business-type activities		
Landfill	336,057	422,606
Total	\$ 13,225,734	\$ 2,516,518

General Revenues

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

Transfers

Total general revenues and transfers

Change in net assets

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

Net Assets - January 1, restated

Net Assets - December 31

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
\$ 130,960	\$ 53,955	\$ (1,838,461)	\$ -	\$ (1,838,461)
188,694	-	(1,512,017)	-	(1,512,017)
1,333,009	2,048,230	219,971	-	219,971
52,039	-	24,335	-	24,335
1,891,100	-	(1,780,984)	-	(1,780,984)
-	-	(127,800)	-	(127,800)
31,676	-	(135,690)	-	(135,690)
285,907	-	433,148	-	433,148
-	-	(62,697)	-	(62,697)
\$ 3,913,385	\$ 2,102,185	\$ (4,780,195)	\$ -	\$ (4,780,195)
9,244	-	-	95,793	95,793
\$ 3,922,629	\$ 2,102,185	\$ (4,780,195)	\$ 95,793	\$ (4,684,402)
		\$ 5,266,442	\$ 90,607	\$ 5,357,049
		7,755	-	7,755
		1,481,322	-	1,481,322
		79,057	-	79,057
		472,005	-	472,005
		176,208	-	176,208
		(110,200)	110,200	-
		\$ 7,372,589	\$ 200,807	\$ 7,573,396
		\$ 2,592,394	\$ 296,600	\$ 2,888,994
		\$ 45,506,345	\$ 1,233,403	\$ 46,739,748
		(196,645)	-	(196,645)
		\$ 45,309,700	\$ 1,233,403	\$ 46,543,103
		\$ 47,902,094	\$ 1,530,003	\$ 49,432,097

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Ditch</u>	<u>Building</u>	<u>Total Governmental Funds</u>
Assets						
Cash and pooled investments	\$ 6,186,565	\$ 188,691	\$ 1,010,381	\$ 512,488	\$ 968	\$ 7,899,093
Petty cash and change funds	3,100	-	-	-	-	3,100
Undistributed cash in agency funds	50,590	13,491	26,833	12,217	692	103,823
Taxes receivable						
Prior	32,292	10,577	20,107	-	533	63,509
Special assessments receivable						
Prior	24,511	-	-	37	-	24,548
Noncurrent	887,630	-	-	1,833,165	-	2,720,795
Accounts receivable	21,617	-	4,959	-	-	26,576
Accrued interest receivable	90,896	-	-	-	-	90,896
Loans receivable	25,000	-	-	-	-	25,000
Due from other funds	1,039	4,800	-	-	-	5,839
Due from other governments	34,157	868,214	206,092	-	-	1,108,463
Inventories	-	171,831	-	-	-	171,831
Advances to other funds	76,724	-	-	-	-	76,724
Prepaid items	14,591	-	-	-	-	14,591
Total Assets	<u>\$ 7,448,712</u>	<u>\$ 1,257,604</u>	<u>\$ 1,268,372</u>	<u>\$ 2,357,907</u>	<u>\$ 2,193</u>	<u>\$ 12,334,788</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Ditch</u>	<u>Building</u>	<u>Total Governmental Funds</u>
<u>Liabilities and Fund Balances</u>						
Liabilities						
Accounts payable	\$ 108,561	\$ 23,146	\$ 152,413	\$ 29,176	\$ -	\$ 313,296
Salaries payable	107,421	38,597	67,885	-	-	213,903
Contracts payable	-	142,797	-	-	-	142,797
Due to other funds	1,768	-	1,039	-	-	2,807
Due to other governments	44,557	4,576	23,757	1,154	-	74,044
Deferred revenue - unavailable	1,032,593	636,426	20,107	1,833,202	533	3,522,861
Advances from other funds	-	-	-	76,724	-	76,724
Total Liabilities	\$ 1,294,900	\$ 845,542	\$ 265,201	\$ 1,940,256	\$ 533	\$ 4,346,432
Fund Balances						
Reserved for						
Encumbrances	\$ 58,999	\$ 155,588	\$ -	\$ -	\$ -	\$ 214,587
Inventories	-	171,831	-	-	-	171,831
Advances to other funds	76,724	-	-	-	-	76,724
Low-interest small business loans	25,886	-	-	-	-	25,886
Sheriff's contingency	3,763	-	-	-	-	3,763
Permit to carry	7,426	-	-	-	-	7,426
Enhanced 911	211,871	-	-	-	-	211,871
Loans receivable	25,000	-	-	-	-	25,000
Prepaid items	14,591	-	-	-	-	14,591
Missing heirs	3,425	-	-	-	-	3,425
Law library	34,544	-	-	-	-	34,544
Recorder's technology fund	26,813	-	-	-	-	26,813
Recorder's compliance fund	47,692	-	-	-	-	47,692
Canteen fund	12,999	-	-	-	-	12,999
Transportation	19,728	-	-	-	-	19,728
Septic/sewer loans	479,768	-	-	-	-	479,768
Election equipment	78,201	-	-	-	-	78,201
Unspent grant monies	24,552	-	45,720	-	-	70,272
Unreserved						
Undesignated	5,001,830	84,643	957,451	417,651	1,660	6,463,235
Total Fund Balances	\$ 6,153,812	\$ 412,062	\$ 1,003,171	\$ 417,651	\$ 1,660	\$ 7,988,356
Total Liabilities and Fund Balances	\$ 7,448,712	\$ 1,257,604	\$ 1,268,372	\$ 2,357,907	\$ 2,193	\$ 12,334,788

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2007**

Fund balances - total governmental funds (Exhibit 3)	\$	7,988,356
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		40,201,983
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		3,522,861
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	\$ (1,900,000)	
Capital leases	(50,724)	
Loans payable	(1,248,910)	
Compensated absences	(630,715)	
Accrued interest payable	(26,282)	
Unamortized discount on general obligation refunding bonds	24,845	
Deferred debt issuance charges	20,680	
	(3,811,106)	(3,811,106)
Net Assets of Governmental Activities (Exhibit 1)	\$	<u>47,902,094</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	General	Road and Bridge
Revenues		
Taxes	\$ 2,602,876	\$ 876,893
Special assessments	419,138	-
Licenses and permits	10,441	-
Intergovernmental	1,838,535	3,787,666
Charges for services	333,740	53,417
Fines and forfeits	11,917	-
Gifts and contributions	8,300	-
Investment earnings	463,626	-
Miscellaneous	225,117	57,033
	\$ 5,913,690	\$ 4,775,009
Expenditures		
Current		
General government	\$ 2,195,211	\$ -
Public safety	1,806,012	-
Highways and streets	-	4,865,845
Sanitation	215,854	-
Human services	-	-
Health	2,703	-
Culture and recreation	195,051	-
Conservation of natural resources	581,454	-
Intergovernmental	122,632	245,760
Debt service		
Principal	404,917	-
Interest	14,210	-
Administrative (fiscal) charges	431	-
	\$ 5,538,475	\$ 5,111,605
Excess of Revenues Over (Under) Expenditures	\$ 375,215	\$ (336,596)
Other Financing Sources (Uses)		
Transfers in	\$ 22,042	\$ 5,100
Transfers out	(205,102)	-
Loans issued	94,117	-
	\$ (88,943)	\$ 5,100
Net Change in Fund Balances	\$ 286,272	\$ (331,496)
Fund Balances - January 1, as previously reported	\$ 6,006,882	\$ 727,967
Prior period adjustment (Note 1.E.)	(139,342)	-
	\$ 5,867,540	\$ 727,967
Increase (decrease) in reserved for inventories	\$ -	\$ 15,591
Fund Balances - December 31	\$ 6,153,812	\$ 412,062

EXHIBIT 5

<u>Family Services</u>	<u>Ditch</u>	<u>Building</u>	<u>Debt Service</u>	<u>Total</u>
\$ 1,745,373	\$ -	\$ 44,974	\$ -	\$ 5,270,116
-	273,642	-	-	692,780
-	-	-	-	10,441
2,075,118	-	4,622	-	7,705,941
56,846	-	-	-	444,003
-	-	-	-	11,917
-	-	-	-	8,300
-	-	-	-	463,626
455,012	93	73,500	-	810,755
\$ 4,332,349	\$ 273,735	\$ 123,096	\$ -	\$ 15,417,879
\$ -	\$ -	\$ 385,136	\$ -	\$ 2,580,347
-	-	-	-	1,806,012
-	-	-	-	4,865,845
-	-	-	-	215,854
4,165,131	-	-	-	4,165,131
-	-	-	-	2,703
-	-	-	-	195,051
-	95,028	-	-	676,482
-	-	-	-	368,392
-	1,980,000	-	-	2,384,917
-	80,591	-	-	94,801
-	2,806	-	-	3,237
\$ 4,165,131	\$ 2,158,425	\$ 385,136	\$ -	\$ 17,358,772
\$ 167,218	\$ (1,884,690)	\$ (262,040)	\$ -	\$ (1,940,893)
\$ -	\$ 1,302	\$ 76,000	\$ -	\$ 104,444
-	-	-	(9,542)	(214,644)
-	-	-	-	94,117
\$ -	\$ 1,302	\$ 76,000	\$ (9,542)	\$ (16,083)
\$ 167,218	\$ (1,883,388)	\$ (186,040)	\$ (9,542)	\$ (1,956,976)
\$ 893,256	\$ 2,301,039	\$ 187,700	\$ 9,542	\$ 10,126,386
(57,303)	-	-	-	(196,645)
\$ 835,953	\$ 2,301,039	\$ 187,700	\$ 9,542	\$ 9,929,741
\$ -	\$ -	\$ -	\$ -	\$ 15,591
\$ 1,003,171	\$ 417,651	\$ 1,660	\$ -	\$ 7,988,356

**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, 2007**

Net change in fund balances - total governmental funds (Exhibit 5) \$ (1,956,976)

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

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

Deferred revenue - December 31	\$ 3,522,861	
Deferred revenue - January 1	<u>(3,348,469)</u>	174,392

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for general capital assets	\$ 3,398,758	
Current year depreciation	<u>(1,280,205)</u>	2,118,553

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

Debt issued		
Septic loans		(94,117)

Principal payments		
General obligation bonds	\$ 2,175,000	
Capital lease	16,170	
Loans payable	<u>193,747</u>	2,384,917

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	\$ 43,518	
Amortization of discounts and deferred issuance charges	(8,177)	
Change in compensated absences	(85,307)	
Change in inventories	<u>15,591</u>	(34,375)

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 2,592,394

PROPRIETARY FUND

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FUND NET ASSETS
PROPRIETARY FUND
DECEMBER 31, 2007**

	<u>Landfill Enterprise Fund</u>
<u>Assets</u>	
Current assets	
Cash and pooled investments	\$ 887,910
Accounts receivable - net	27,607
Restricted assets	
Cash and pooled investments	1,508,165
Undistributed cash in agency funds	1,418
Taxes receivable	
Prior	546
Total current assets	<u>\$ 2,425,646</u>
Noncurrent assets	
Capital assets	
Nondepreciable	\$ 163,882
Depreciable - net	241,109
Total noncurrent assets	<u>\$ 404,991</u>
Total Assets	<u>\$ 2,830,637</u>
<u>Liabilities</u>	
Current liabilities	
Accounts payable	\$ 3,988
Salaries payable	3,947
Due to other funds	3,032
General obligation bonds payable - current	73,759
Total current liabilities	<u>\$ 84,726</u>
Noncurrent liabilities	
Compensated absences payable - long-term	\$ 16,216
Estimated liability for landfill closure/postclosure	1,124,692
General obligation bonds payable - long-term	75,000
Total noncurrent liabilities	<u>\$ 1,215,908</u>
Total Liabilities	<u>\$ 1,300,634</u>
<u>Net Assets</u>	
Invested in capital assets	\$ 404,991
Restricted for postclosure	1,508,165
Restricted for debt service	1,964
Unrestricted	(385,117)
Total Net Assets	<u>\$ 1,530,003</u>

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

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Landfill Enterprise Fund
Operating Revenues	
Charges for services	\$ 413,830
Miscellaneous	8,776
	\$ 422,606
Operating Expenses	
Personal services	\$ 106,637
Professional services	21,621
Other services and charges	146,578
Utilities	7,766
Depreciation	34,188
Landfill closure and postclosure costs	12,345
	\$ 329,135
Operating Income (Loss)	\$ 93,471
Nonoperating Revenues (Expenses)	
Property taxes	\$ 90,607
Intergovernmental	9,244
Interest expense	(6,922)
	\$ 92,929
Income (Loss) Before Transfers	\$ 186,400
Transfers in	122,700
Transfers out	(12,500)
	\$ 296,600
Change in Net Assets	\$ 296,600
Net Assets - January 1	1,233,403
Net Assets - December 31	\$ 1,530,003

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2007
Increase (Decrease) in Cash and Cash Equivalents**

	Landfill Enterprise Fund
Cash Flows from Operating Activities	
Receipts from customers and users	\$ 435,004
Payments to suppliers	(174,547)
Payments to employees	(102,966)
	\$ 157,491
Cash Flows from Noncapital Financing Activities	
Property taxes	\$ 91,143
Intergovernmental	9,244
Transfers in	122,700
Transfers out	(12,500)
	\$ 210,587
Cash Flows from Capital and Related Financing Activities	
Principal paid on long-term debt	\$ (73,759)
Interest paid on long-term debt	(6,922)
	\$ (80,681)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 287,397
Cash and Cash Equivalents - January 1	2,110,096
Cash and Cash Equivalents - December 31	\$ 2,397,493
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets - Exhibit 7	
Cash and pooled investments	\$ 887,910
Restricted cash and pooled investments	1,508,165
Undistributed cash in agency funds	1,418
	\$ 2,397,493
Total Cash and Cash Equivalents - December 31	\$ 2,397,493

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2007
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)	\$ 93,471
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 34,188
Landfill closure and postclosure expense	12,345
(Increase) decrease in accounts receivable	12,156
(Increase) decrease in due from other governments	242
Increase (decrease) in accounts payable	(513)
Increase (decrease) in salaries payable	1,563
Increase (decrease) in due to other funds	1,931
Increase (decrease) in compensated absences payable	2,108
Total adjustments	\$ 64,020
Net Cash Provided by (Used in) Operating Activities	\$ 157,491

FIDUCIARY FUNDS

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2007**

	Investment Trust	Agency
<u>Assets</u>		
Cash and pooled investments	\$ 150,880	\$ 1,431,886
Accrued interest receivable	7,934	-
Total Assets	\$ 158,814	\$ 1,431,886
<u>Liabilities</u>		
Due to other governments	-	\$ 1,431,886
<u>Net Assets</u>		
Net assets, held in trust for pool participant	\$ 158,814	

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 11

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Investment Trust
<u>Additions</u>	
Contributions from participant	\$ 174,068
Investment income	7,934
Total Additions	\$ 182,002
<u>Deductions</u>	
Distributions to participants	239,340
Change in Net Assets	\$ (57,338)
Net Assets - January 1	216,152
Net Assets - December 31	\$ 158,814

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2007**

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, 2007. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The County has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds and has chosen to do so. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

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

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the primary government. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

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

2. Fund Financial Statements

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

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

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

The Road and Bridge Special Revenue Fund is used to account for revenues and expenditures of the County Highway Department, which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

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

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

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

The Debt Service Fund is used to account for the accumulation of financial resources for, and the payment of, principal, interest, and related costs of general obligation bonds. This fund was closed during 2007.

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 general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2007, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments of governmental and fiduciary funds are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2007 were \$463,626.

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

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

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

All receivables are shown net of an allowance for uncollectibles.

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

4. Special Assessments Receivable

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

5. Inventories and Prepaid Items

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

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. Restricted Assets

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

7. Capital Assets

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

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

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

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

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide, proprietary, and fiduciary 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 type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as 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 Assets or Equity (Continued)

11. Fund Equity

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

12. Use of Estimates

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

E. Restatement of Net Assets

The net assets/fund balances at January 1, 2007, were restated to reflect an overstatement of General Fund fund balance in 2006 due to unpaid insurance claims not included in accounts payable, and to reflect an overstatement of the Family Services Special Revenue Fund fund balance in 2006 due to a tax settlement recorded twice. The following table summarizes these changes:

	<u>Governmental Activities</u>	<u>General Fund</u>	<u>Family Services Special Revenue Fund</u>
Net Assets/Fund Balance - January 1, as previously reported	\$ 45,506,345	\$ 6,006,882	\$ 893,256
Restatement	<u>(196,645)</u>	<u>(139,342)</u>	<u>(57,303)</u>
Net Assets/Fund Balance - January 1, as restated	<u>\$ 45,309,700</u>	<u>\$ 5,867,540</u>	<u>\$ 835,953</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

The following funds had expenditures in excess of budget for the year ended December 31, 2007:

<u>Fund</u>	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General	\$ 5,538,475	\$ 5,197,167	\$ 341,308
Special Revenue			
Road and Bridge	5,111,605	4,249,790	861,815
Building	385,136	32,000	353,136

Deficit Fund Equity

For internal accounting purposes, individual ditch system records are maintained on a basis which shows long-term debt payable, recognizes special assessments as revenues when levied, and does not eliminate interfund transactions. Using this basis of accounting, 9 of 97 drainage systems have deficit unreserved, undesignated fund balances at December 31, 2007. 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	\$ 642,910
Account balance deficits	<u>(791,140)</u>
 Total	 <u>\$ (148,230)</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 \$417,651 when reported on the modified accrual basis.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Reconciliation of the County's total cash and investments to the basic financial statements follows:

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 8,006,016
Business-type activities	
Cash and pooled investments	887,910
Cash and pooled investments - restricted assets	1,509,583
Statement of fiduciary net assets	
Cash and pooled investments	<u>1,582,766</u>
 Total Cash and Investments	 <u>\$ 11,986,275</u>

a. Deposits

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

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better; irrevocable 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. As of December 31, 2007, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County has adopted a policy for custodial credit risk by

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Custodial Credit Risk (Continued)

permitting brokers that obtained investments for the County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. At December 31, 2007, 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, 2007, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Negotiable certificates of deposit	N/A	N/A	N/A	Various	\$ 6,958,812
Total investments					\$ 6,958,812
Checking					3,187,838
Savings					390,525
Certificates of deposit					1,446,000
Petty cash					3,100
Total Cash and Investments					<u>\$ 11,986,275</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, 2007, 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	\$ 63,509	\$ -
Special assessments - prior	24,548	-
Special assessments - noncurrent	2,720,795	2,393,729
Accounts	26,576	-
Interest	90,896	-
Loans	25,000	-
Due from other governments	1,108,463	-
Total Governmental Activities	\$ 4,059,787	\$ 2,393,729
Business-Type Activities		
Taxes	\$ 546	\$ -
Accounts	27,607	-
Total Business-Type Activities	\$ 28,153	\$ -

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, 2007, there is one loan outstanding of \$25,000 to Windom Economic Development. It is offset by deferred revenue.

Loan payments may be reloaned to other businesses. At December 31, 2007, the County has \$25,886 reserved for low-interest small business loans.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 311,551	\$ -	\$ -	\$ 311,551
Right-of-way	697,549	55,660	-	753,209
Construction in progress	719,532	617,023	718,135	618,420
Total capital assets not depreciated	\$ 1,728,632	\$ 672,683	\$ 718,135	\$ 1,683,180
Capital assets depreciated				
Buildings	\$ 4,085,096	\$ 250,000	\$ -	\$ 4,335,096
Machinery and equipment	4,526,140	389,602	70,094	4,845,648
Infrastructure	42,095,622	2,804,608	-	44,900,230
Total capital assets depreciated	\$ 50,706,858	\$ 3,444,210	\$ 70,094	\$ 54,080,974
Less: accumulated depreciation for				
Buildings	\$ 1,722,733	\$ 93,780	\$ -	\$ 1,816,513
Machinery and equipment	2,958,707	304,201	70,094	3,192,814
Infrastructure	9,670,620	882,224	-	10,552,844
Total accumulated depreciation	\$ 14,352,060	\$ 1,280,205	\$ 70,094	\$ 15,562,171
Total capital assets depreciated, net	\$ 36,354,798	\$ 2,164,005	\$ -	\$ 38,518,803
Governmental Activities Capital Assets, Net	\$ 38,083,430	\$ 2,836,688	\$ 718,135	\$ 40,201,983

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 163,882	\$ -	\$ -	\$ 163,882
Capital assets depreciated				
Buildings	\$ 23,700	\$ -	\$ -	\$ 23,700
Machinery and equipment	462,967	41,693	-	504,660
Total capital assets depreciated	\$ 486,667	\$ 41,693	\$ -	\$ 528,360

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Business-Type Activities (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Less: accumulated depreciation for				
Buildings	\$ 17,446	\$ 790	\$ -	\$ 18,236
Machinery and equipment	193,924	75,091	-	269,015
Total accumulated depreciation	<u>\$ 211,370</u>	<u>\$ 75,881</u>	<u>\$ -</u>	<u>\$ 287,251</u>
Total capital assets depreciated, net	<u>\$ 275,297</u>	<u>\$ (34,188)</u>	<u>\$ -</u>	<u>\$ 241,109</u>
Business-Type Activities				
Capital Assets, Net	<u>\$ 439,179</u>	<u>\$ (34,188)</u>	<u>\$ -</u>	<u>\$ 404,991</u>

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

Governmental Activities	
General government	\$ 59,623
Public safety	25,253
Highways and streets, including depreciation of infrastructure assets	1,131,583
Sanitation	3,839
Human services	32,689
Health	2,465
Culture and recreation	22,565
Conservation of natural resources	2,188
Total Depreciation Expense - Governmental Activities	<u>\$ 1,280,205</u>
Business-Type Activities	
Landfill	<u>\$ 75,881</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2007, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Family Services	\$ 1,039
Road and Bridge	General	1,768
Road and Bridge	Landfill Enterprise	3,032
Total Due To/From Other Funds		\$ 5,839

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

2. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General	Ditch	\$ 76,724

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

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

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2007, consisted of the following:

Transfers to General Fund from Landfill Fund	\$ 12,500	Provide funds for recycling
Transfer to Road and Bridge Fund from General Fund	5,100	Provide funding
Transfer to Building Fund from General Fund	76,000	Provide funding
Transfer to Ditch Fund from General Fund	1,302	Provide funding
Transfer to General Fund from Debt Service Fund	9,542	Close fund
Transfers to Landfill Fund from General Fund	<u>122,700</u>	Provide funding
Total Interfund Transfers	<u>\$ 227,144</u>	

C. Liabilities

1. Payables

Payables at December 31, 2007, were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts	\$ 313,296	\$ 3,988
Salaries	213,903	3,947
Contracts	142,797	-
Due to other governments	<u>74,044</u>	<u>-</u>
Total Payables	<u>\$ 744,040</u>	<u>\$ 7,935</u>

2. Construction Commitments

The government has active construction projects as of December 31, 2007. The projects include the following:

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Governmental Activities		
Roads and bridges	\$ -	\$ 155,588
GIS system development	140,000	58,999

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Postemployment Benefits

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 seven elected officials who were eligible for this benefit in 2007. The total cost for this program totaled \$60,972 in 2007.

4. Capital Lease

The County has entered into a lease agreement with Alfa-Wireless for financing the upgrade to a 911 Motorola Gold Console in the law enforcement center. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The lease is as follows at December 31, 2007:

<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, 2007</u>
2005 Motorola Gold Console	2010	\$1,334	0.12	<u>\$ 82,950</u>	<u>\$ 50,724</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Capital Lease (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2007, were as follows:

Year Ending December 31	Governmental Activities
2008	\$ 16,590
2009	16,590
2010	18,115
Total minimum lease payments	\$ 51,295
Less: amount representing interest	(571)
Present Value of Minimum Lease Payments	\$ 50,724

5. Long-Term Debt

Governmental Activities

Bonds Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2007
Special assessment bonds with government commitment					
2005 G.O. Drainage Crossover Refunding Bonds	2020	\$110,000 - \$175,000	3.5586	\$ 1,900,000	\$ 1,900,000
Less: unamortized discount					(24,845)
Total Governmental Activities, Net					\$ 1,875,155

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

5. Long-Term Debt

Governmental Activities (Continued)

Loans Payable

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

Business-Type Activities

Bonds Payable

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Average Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2007</u>
General obligation bonds Series 2004 G.O. Landfill Bonds	2009	\$70,000 - \$75,000	2.8688	<u>\$ 365,000</u>	\$ 150,000
Less: unamortized discount					<u>(1,241)</u>
Total General Obligation Landfill Bonds, Net					<u>\$ 148,759</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Debt Service Requirements

Debt service requirements at December 31, 2007, were as follows:

Governmental Activities

Year Ending December 31	Special Assessment Bonds		Loans Payable	
	Principal	Interest	Principal	Interest
2008	\$ 170,000	\$ 61,080	\$ 171,002	\$ 12,580
2009	175,000	56,895	152,141	11,115
2010	160,000	52,468	116,378	9,622
2011	155,000	47,903	118,249	8,098
2012	160,000	43,017	130,161	6,544
2013 - 2017	740,000	134,925	449,319	12,058
2018 - 2022	340,000	20,561	56,376	-
2023 - 2027	-	-	5,956	-
Total	<u>\$ 1,900,000</u>	<u>\$ 416,849</u>	<u>\$ 1,199,582</u>	<u>\$ 60,017</u>

Clean water loans in the amount of \$49,329 are not included in the debt service requirements because a fixed repayment schedule is not available.

Business-Type Activities

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2008	\$ 75,000	\$ 3,563
2009	75,000	1,219
Total	<u>\$ 150,000</u>	<u>\$ 4,782</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

7. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable (fund liquidating the debt)					
Tax increment (General)	\$ 195,000	\$ -	\$ 195,000	\$ -	\$ -
Special assessment debt with government commitment (Ditch)	3,880,000	-	1,980,000	1,900,000	170,000
Less: unamortized discount	(27,844)	-	(2,999)	(24,845)	-
Total bonds payable	\$ 4,047,156	\$ -	\$ 2,172,001	\$ 1,875,155	\$ 170,000
Loans payable	1,348,540	94,117	193,747	1,248,910	171,001
Capital lease	66,894	-	16,170	50,724	16,284
Compensated absences	545,408	85,307	-	630,715	45,475
Governmental Activities Long-Term Liabilities	\$ 6,007,998	\$ 179,424	\$ 2,381,918	\$ 3,805,504	\$ 402,760

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 225,000	\$ -	\$ 75,000	\$ 150,000	\$ 75,000
Less: unamortized discount	(2,482)	-	(1,241)	(1,241)	(1,241)
Total bonds payable	\$ 222,518	\$ -	\$ 73,759	\$ 148,759	\$ 73,759
Estimated liability for landfill closure and postclosure care	1,112,347	12,345	-	1,124,692	-
Compensated absences	14,108	2,108	-	16,216	-
Business-Type Activities Long-Term Liabilities	\$ 1,348,973	\$ 14,453	\$ 73,759	\$ 1,289,667	\$ 73,759

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

8. Crossover Refunding of Bonds

In 2005, \$1,900,000 General Obligation Drainage Crossover Refunding Bonds were sold to refund general obligation drainage bonds of 1998 and 2000. The proceeds from the refunding bonds were placed with an escrow agent in an irrevocable trust from which U.S. Treasury securities were placed. The County was responsible for the principal and interest payments on the original issue through 2007. The refunded bond issues were called in February 2007.

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 \$1,124,692 landfill closure and postclosure care liability at December 31, 2007, represents the cumulative amount reported to date based on the use of 59 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$787,459 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2007.

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, 2007, the County has in restricted assets \$1,508,165 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.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

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 for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. The County self-insures for employee health and dental coverage. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$400,000 per claim in 2007 and at \$410,000 per claim in 2008. 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.

In November 1988, the County began to self-insure for employee health insurance coverage. The County has retained risk up to \$50,000 stop-loss per person per year (\$1,530,000 aggregate) for the health plan. At December 31, 2007, the amount of the County's liability was \$65,033. This liability is the County's best estimate based on available information.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

5. Risk Management (Continued)

re-evaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. Changes in the balances of claims liabilities during the past two years are as follows:

	Year Ended December 31	
	2006	2007
Unpaid claims, beginning of fiscal year	\$ 73,011	\$ 139,342
Incurred claims (including IBNRs)	1,729,126	1,377,300
Claims payments	(1,662,795)	(1,451,609)
Unpaid Claims, End of Fiscal Year	\$ 139,342	\$ 65,033

6. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

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

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

6. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

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

For all Public Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. 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.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

6. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the internet at www.mnpera.org; 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. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.75 percent, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan increased in 2008 to 6.00 percent. Public Employees Police and Fire Fund members were required to contribute 7.80 percent of their annual covered salary in 2007. That rate increased to 8.60 percent in 2008. 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 2007 and 2008:

	<u>2007</u>	<u>2008</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.25	6.50
Public Employees Police and Fire Fund	11.70	12.90
Public Employees Correctional Fund	8.75	8.75

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

6. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County's contributions for the years ending December 31, 2007, 2006, and 2005, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2007	\$ 210,607	\$ 56,337	\$ 29,377
2006	194,313	36,320	29,632
2005	171,952	37,364	28,009

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

B. Defined Contribution Plan

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minn. Stat. § 353D.03 specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary, which is matched by the employer. 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.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

6. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ending December 31, 2007, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$3,446	\$3,446
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.

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

B. Joint Ventures

Cottonwood-Jackson Community Health Services Board

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

The Cottonwood-Jackson Community Health Services Board is made up of the five elected County Commissioners from both Cottonwood and Jackson Counties. Both counties levy a tax to help support the Health Services Board. For 2007, Cottonwood County contributed \$122,632 to the Health Services Board.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Cottonwood-Jackson Community Health Services Board (Continued)

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

Southwestern Minnesota Adult Mental Health Consortium Board

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

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

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

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

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

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Red Rock Rural Water System

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

The governing body is composed of 11 members appointed to three-year terms by the District Court. Each county is responsible for levying and collecting the special assessments from the benefited properties within the county. The bond issue and notes payable are shown as long-term debt in the financial statements of the Red Rock Rural Water System. Outstanding bonds at December 31, 2006, (the most current information available) amounted to \$6,145,000, and notes payable were \$5,259,310. The Water System's net assets increased by \$26,692 in 2006.

A complete financial report of the Red Rock Rural Water System can be obtained at 305 West Whited Street, Jeffers, Minnesota 56145.

C. Jointly-Governed Organization

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

Family Service Collaborative

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

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

D. Agriculture Best Management Loan Program

The County has entered into an agreement with the Minnesota Department of Agriculture and two 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 2007.

REQUIRED SUPPLEMENTARY INFORMATION

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,943,509	\$ 2,680,509	\$ 2,602,876	\$ (77,633)
Special assessments	197,000	197,000	419,138	222,138
Licenses and permits	22,300	22,300	10,441	(11,859)
Intergovernmental	1,635,506	1,898,506	1,838,535	(59,971)
Charges for services	273,200	273,200	333,740	60,540
Fines and forfeits	14,500	14,500	11,917	(2,583)
Gifts and contributions	-	-	8,300	8,300
Investment earnings	243,000	243,000	463,626	220,626
Miscellaneous	256,661	256,661	225,117	(31,544)
Total Revenues	\$ 5,585,676	\$ 5,585,676	\$ 5,913,690	\$ 328,014
Expenditures				
Current				
General government				
Commissioners	\$ 270,752	\$ 270,752	\$ 304,383	\$ (33,631)
Courts	11,100	11,100	12,872	(1,772)
Law library	7,500	7,500	8,808	(1,308)
Auditor/treasurer	408,462	408,462	493,161	(84,699)
Assessor	215,561	215,561	207,190	8,371
Elections	29,548	29,548	26,257	3,291
Attorney	281,139	281,139	263,936	17,203
Recorder	187,825	187,825	186,680	1,145
Buildings and plant	95,579	95,579	94,236	1,343
Veterans service officer	97,135	97,135	89,161	7,974
Transit	132,660	132,660	180,002	(47,342)
Other general government	327,313	352,313	328,525	23,788
Total general government	\$ 2,064,574	\$ 2,089,574	\$ 2,195,211	\$ (105,637)
Public safety				
Sheriff	\$ 873,582	\$ 868,832	\$ 897,205	\$ (28,373)
Emergency services	-	-	70,387	(70,387)
Coroner	5,500	5,500	11,289	(5,789)
Safety program	5,750	5,750	3,734	2,016
Jail	709,976	714,226	706,122	8,104
Probation and parole	118,545	118,545	116,399	2,146
Civil defense	78,967	78,967	876	78,091
Total public safety	\$ 1,792,320	\$ 1,791,820	\$ 1,806,012	\$ (14,192)
Sanitation				
Recycling	\$ 275,200	\$ 275,200	\$ 215,854	\$ 59,346

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Health				
Community health	\$ -	\$ -	\$ 2,703	\$ (2,703)
Culture and recreation				
Parks	\$ 115,667	\$ 117,567	\$ 108,462	\$ 9,105
Minnesota trails	-	-	31,676	(31,676)
Regional library	70,313	70,313	54,913	15,400
Total culture and recreation	\$ 185,980	\$ 187,880	\$ 195,051	\$ (7,171)
Conservation of natural resources				
Extension	\$ 127,285	\$ 127,285	\$ 122,434	\$ 4,851
Soil and water conservation	82,816	82,816	86,180	(3,364)
Water quality loan program	-	-	129,620	(129,620)
ISTS pilot project	26,529	26,529	1,500	25,029
Water planning	103,875	102,375	103,613	(1,238)
Des Moines River project	45,847	56,385	32,865	23,520
Environmental services	126,977	126,977	105,242	21,735
Total conservation of natural resources	\$ 513,329	\$ 522,367	\$ 581,454	\$ (59,087)
Economic development				
Other	\$ 7,450	\$ 7,450	\$ -	\$ 7,450
Intergovernmental				
Health	\$ 124,232	\$ 124,232	\$ 122,632	\$ 1,600
Debt service				
Principal	\$ 195,000	\$ 195,000	\$ 404,917	\$ (209,917)
Interest	\$ 3,644	\$ 3,644	\$ 14,210	\$ (10,566)
Administrative (fiscal) charges	\$ -	\$ -	\$ 431	\$ (431)
Total Expenditures	\$ 5,161,729	\$ 5,197,167	\$ 5,538,475	\$ (341,308)
Excess of Revenues Over (Under) Expenditures	\$ 423,947	\$ 388,509	\$ 375,215	\$ (13,294)

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources (Uses)				
Transfers in	\$ 12,500	\$ 12,500	\$ 22,042	\$ 9,542
Transfers out	(205,000)	(230,000)	(205,102)	24,898
Loans issued	-	-	94,117	94,117
Total Other Financing Sources (Uses)	\$ (192,500)	\$ (217,500)	\$ (88,943)	\$ 128,557
Net Change in Fund Balance	\$ 231,447	\$ 171,009	\$ 286,272	\$ 115,263
Fund Balance - January 1, as previously reported	\$ 6,006,882	\$ 6,006,882	\$ 6,006,882	\$ -
Prior period adjustment (Note 1.E.)	(139,342)	(139,342)	(139,342)	-
Fund Balance - January 1, as restated	\$ 5,867,540	\$ 5,867,540	\$ 5,867,540	\$ -
Fund Balance - December 31	\$ 6,098,987	\$ 6,038,549	\$ 6,153,812	\$ 115,263

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 975,000	\$ 884,870	\$ 876,893	\$ (7,977)
Intergovernmental	3,457,623	3,547,753	3,787,666	239,913
Charges for services	3,000	3,000	53,417	50,417
Miscellaneous	69,000	69,000	57,033	(11,967)
Total Revenues	\$ 4,504,623	\$ 4,504,623	\$ 4,775,009	\$ 270,386
Expenditures				
Current				
Highways and streets				
Administration	\$ 573,757	\$ 573,757	\$ 236,924	\$ 336,833
Maintenance	1,082,584	1,082,584	1,101,796	(19,212)
Construction	1,681,925	1,681,925	2,643,919	(961,994)
Equipment and maintenance shops	1,049,624	911,524	883,206	28,318
Total highways and streets	\$ 4,387,890	\$ 4,249,790	\$ 4,865,845	\$ (616,055)
Intergovernmental				
Highways and streets	-	-	245,760	(245,760)
Total Expenditures	\$ 4,387,890	\$ 4,249,790	\$ 5,111,605	\$ (861,815)
Excess of Revenues Over (Under) Expenditures	\$ 116,733	\$ 254,833	\$ (336,596)	\$ (591,429)
Other Financing Sources (Uses)				
Transfers in	2,000	2,000	5,100	3,100
Net Change in Fund Balance	\$ 118,733	\$ 256,833	\$ (331,496)	\$ (588,329)
Fund Balance - January 1	727,967	727,967	727,967	-
Increase (decrease) in reserved for inventories	-	-	15,591	15,591
Fund Balance - December 31	\$ 846,700	\$ 984,800	\$ 412,062	\$ (572,738)

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,942,453	\$ 1,762,891	\$ 1,745,373	\$ (17,518)
Intergovernmental	2,167,118	2,346,680	2,075,118	(271,562)
Charges for services	36,300	36,300	56,846	20,546
Miscellaneous	363,135	363,135	455,012	91,877
Total Revenues	\$ 4,509,006	\$ 4,509,006	\$ 4,332,349	\$ (176,657)
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,030,258	\$ 1,030,258	\$ 1,027,778	\$ 2,480
Social services	3,446,321	3,446,321	3,137,353	308,968
Total Expenditures	\$ 4,476,579	\$ 4,476,579	\$ 4,165,131	\$ 311,448
Net Change in Fund Balance	\$ 32,427	\$ 32,427	\$ 167,218	\$ 134,791
Fund Balance - January 1, as previously reported	\$ 893,256	\$ 893,256	\$ 893,256	\$ -
Prior period adjustment (Note 1.E.)	(57,303)	(57,303)	(57,303)	-
Fund Balance - January 1, as restated	\$ 835,953	\$ 835,953	\$ 835,953	\$ -
Fund Balance - December 31	\$ 868,380	\$ 868,380	\$ 1,003,171	\$ 134,791

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
BUILDING SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 50,000	\$ 45,378	\$ 44,974	\$ (404)
Intergovernmental	-	4,622	4,622	-
Miscellaneous	45,000	45,000	73,500	28,500
Total Revenues	\$ 95,000	\$ 95,000	\$ 123,096	\$ 28,096
Expenditures				
Current				
General government				
Buildings and plant	32,000	32,000	385,136	(353,136)
Excess of Revenues Over (Under) Expenditures	\$ 63,000	\$ 63,000	\$ (262,040)	\$ (325,040)
Other Financing Sources (Uses)				
Transfers in	-	-	76,000	76,000
Net Change in Fund Balance	\$ 63,000	\$ 63,000	\$ (186,040)	\$ (249,040)
Fund Balance - January 1	187,700	187,700	187,700	-
Fund Balance - December 31	\$ 250,700	\$ 250,700	\$ 1,660	\$ (249,040)

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2007**

1. General Budget Policies

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

Encumbrance accounting is employed in governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-apportioned and honored during the subsequent year.

2. Budget Basis of Accounting

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

3. Budget Amendments

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

	<u>Original Budget</u>	<u>Increase (Decrease)</u>	<u>Final Budget</u>
General Fund	\$ 5,161,729	\$ 35,438	\$ 5,197,167
Road and Bridge Special Revenue Fund	4,387,890	(138,100)	4,249,790

4. Excess of Expenditures Over Appropriations

For the year ended December 31, 2007, expenditures exceeded appropriations (the legal level of budgetary control) in the General Fund by \$341,308, Road and Bridge Special Revenue Fund by \$861,815, and the Building Special Revenue Fund by \$353,136. The expenditures in excess of budget were funded by unbudgeted revenues and prior year fund balances.

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SUPPLEMENTARY INFORMATION

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

Statement 1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Balance January 1	Additions	Deductions	Balance December 31
<u>AGENCY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 27,123	\$ 84,775	\$ 75,567	\$ 36,331
<u>Liabilities</u>				
Due to other governments	\$ 27,123	\$ 84,775	\$ 75,567	\$ 36,331
 <u>MENTAL HEALTH CONSORTIUM</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 843,861	\$ 4,676,000	\$ 4,243,162	\$ 1,276,699
<u>Liabilities</u>				
Due to other governments	\$ 843,861	\$ 4,676,000	\$ 4,243,162	\$ 1,276,699
 <u>MORTGAGE REGISTRY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 13,783	\$ 100,614	\$ 109,111	\$ 5,286
<u>Liabilities</u>				
Due to other governments	\$ 13,783	\$ 100,614	\$ 109,111	\$ 5,286

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

Statement 1
(Continued)

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Balance January 1	Additions	Deductions	Balance December 31
<u>STATE DEED TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 24,724	\$ 144,931	\$ 144,151	\$ 25,504
<u>Liabilities</u>				
Due to other governments	\$ 24,724	\$ 144,931	\$ 144,151	\$ 25,504
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 137,695	\$ 13,102,893	\$ 13,152,522	\$ 88,066
<u>Liabilities</u>				
Due to other governments	\$ 137,695	\$ 13,102,893	\$ 13,152,522	\$ 88,066
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,047,186	\$ 18,109,213	\$ 17,724,513	\$ 1,431,886
<u>Liabilities</u>				
Due to other governments	\$ 1,047,186	\$ 18,109,213	\$ 17,724,513	\$ 1,431,886

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

Schedule 5

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Governmental Funds	Landfill Enterprise Fund	Total All Funds
Shared Revenue			
State			
Highway users tax	\$ 3,692,913	\$ -	\$ 3,692,913
County program aid	879,256	-	879,256
PERA rate reimbursement	17,411	-	17,411
Disparity reduction aid	46,578	-	46,578
Police aid	36,320	-	36,320
Enhanced 911	85,217	-	85,217
Market value credit	538,077	9,244	547,321
	\$ 5,295,772	\$ 9,244	\$ 5,305,016
Reimbursement for Services			
State			
Minnesota Department of Human Services	\$ 894,914	\$ -	\$ 894,914
Payments			
Local			
Local	\$ 13,614	\$ -	\$ 13,614
Payments in lieu of taxes	79,057	-	79,057
	\$ 92,671	\$ -	\$ 92,671
Grants			
State			
Minnesota Department of			
Corrections	\$ 27,511	\$ -	\$ 27,511
Public Safety	8,298	-	8,298
Transportation	62,007	-	62,007
Human Services	767,342	-	767,342
Natural Resources	36,513	-	36,513
Water and Soil Resources Board	71,746	-	71,746
Peace Officer Standards and Training Board	3,618	-	3,618
Pollution Control Agency	52,039	-	52,039
	\$ 1,029,074	\$ -	\$ 1,029,074
Federal			
Department of			
Agriculture	\$ 7,051	\$ -	\$ 7,051
Justice	8,597	-	8,597
Transportation	82,543	-	82,543
Health and Human Services	241,468	-	241,468
Homeland Security	13,072	-	13,072
Environmental Protection Agency	40,779	-	40,779
	\$ 393,510	\$ -	\$ 393,510
Total State and Federal Grants	\$ 1,422,584	\$ -	\$ 1,422,584
Total Intergovernmental Revenue	\$ 7,705,941	\$ 9,244	\$ 7,715,185

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

Schedule 6

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2007

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

99-1 Internal Accounting Controls

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

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

The County does not segregate the duties of the payroll function. The payroll clerk makes changes or updates the payroll master file, prepares the payroll, and generates the payroll reports and checks with little oversight or review.

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

Client's Response:

The County continues to segregate duties within staffing limits.

00-3 Annual Adopted Budget and Budget Policy

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

We noted in our review that some improvements have been made. The Board-approved budget reconciled to the budget in the County's general ledger. Audit adjustments were not required to the budget in order to present the budget in the annual financial statements. However, we also noted that there was no budget adopted for the Ditch Special Revenue Fund.

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

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

Client's Response:

The County will comply.

06-2 Capital Assets Policies and Procedures

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

The County is carrying a significant amount of fully depreciated assets. The County is also carrying several insignificant, not fully depreciated assets, showing no current depreciation. Typically, a capital asset still in use should not be considered fully depreciated. In turn, an asset which is not fully depreciated should have a depreciation expense. Because depreciation is a method of allocating an asset's cost over its useful life, a periodic review of this useful life is necessary to reflect that allocation. Any change in useful life should be applied prospectively. As many factors affect the useful life of an asset, periodic reassessment of estimated useful lives may be appropriate.

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

Client's Response:

The County will review the procedure for determining and updating useful life of an asset.

06-3 Computer System Controls

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

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

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

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

Client's Response:

The County will comply.

06-4 Accounting Policies and Procedures Manual

The County does not have a current and comprehensive accounting policies and procedures manual. All governments should document their accounting policies and procedures. Although other methods might suffice, this documentation is traditionally in the form of an accounting policies and procedures manual. This manual should document the accounting policies and procedures which make up the County's internal control system.

An accounting policies and procedures manual will enhance employees' understanding of their role and function in the internal control system, establish responsibilities, provide guidance for employees, improve efficiency and consistency of transaction processing, and improve compliance with established policies. It can also help to prevent deterioration of key elements in the County's internal control system and can help to avoid circumvention of County policies.

We recommend the County establish an accounting policies and procedures manual. The accounting policies and procedures manual should be prepared by appropriate levels of management and be approved by the County Board to emphasize its importance and authority. The documentation should describe procedures as they are intended to be performed, indicate which employees are to perform which procedures, and explain the design and purpose of control-related procedures to increase employee understanding and support for controls.

Client's Response:

In progress.

06-5 Financial Reporting

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

As is the case with many small and medium-sized entities, the County has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. Accordingly, the County's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the County's internal control.

The County hired a certified public accountant to assist in the preparation of the fund working trial balances utilizing the County's accounting system, which had been upgraded to accommodate the modified accrual and full accrual bases of accounting. The County also made corrections to numerous coding and mapping errors in the upgrade. Both of these actions resulted in fewer audit adjustments. However, the County continued to rely on staff from the Office of the State Auditor to assist in the preparation of the basic financial statements.

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

Client's Response:

The County will continue.

06-6 Audit Adjustments

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

- adjustment to the Landfill Fund calculation of landfill closure/postclosure care costs (\$66,412);
- adjustments to the Road and Bridge Special Revenue Fund due from other governments and deferred revenue amounts for the bridge bonding allotment (\$205,087);
- adjustment to the Road and Bridge Special Revenue Fund to eliminate the fund balance reserve for highway allotments (\$185,730); and
- adjustment to add new building to capital assets (\$250,000).

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

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

Client's Response:

The County will comply.

PREVIOUSLY REPORTED ITEM RESOLVED

Controls Over the Accounting System Journal Entry Function (06-1)

The County did not limit access to the accounting system journal entry function nor did it have any review process of journal entries made to the accounting system.

Resolution

Journal entries are now approved by the Auditor/Treasurer.

II. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS RESOLVED

Collateral Assignments (01-6)

The County did not have documentation demonstrating that it had perfected interest in pledged collateral.

Resolution

Documentation was obtained indicating that the County had perfected a security interest in pledged collateral.

Depository Pledge Agreement (05-2)

The County did not have depository pledge agreements with any of the banks that pledged collateral.

Resolution

The County received depository pledge agreements from applicable banks.

Collateral Pledged to Secure Deposits (06-7)

Federal deposit insurance and collateral pledged was insufficient for the amount on deposit at one of the County's depositories.

Resolution

The County obtained sufficient federal deposit insurance and pledged collateral on deposits at County depositories.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-6 County Ditch Fund Deficits

Nine of the 97 individual ditch systems had deficit fund balances as of December 31, 2007, totaling \$791,139, which is an increase from the \$591,049 reported in the prior audit. The deficit indicates that assessments are not sufficient to cover bond principal and interest payments.

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

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

Client's Response:

In progress.

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. This standard, similar to what GASB Statement 27 did for government employee pension benefits and plans, provides the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

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

Schedule 6
(Continued)

In 2008, the legislature enacted a new law, Minn. Stat. § 471.6175, intended to help local governments address their OPEB liability in at least three important ways:

- it allows counties to create both revocable and irrevocable OPEB trusts;
- it authorizes the use of a different list of permissible investments for both revocable and irrevocable OPEB trusts; and
- it also permits counties to invest OPEB trust assets with the State Board of Investment, bank trust departments, and certain insurance companies.

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

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

GASB Statement 45 would be applicable to Cottonwood County for the year ended December 31, 2008.

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

Board of County Commissioners
Cottonwood County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Cottonwood County as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated January 22, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cottonwood County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 99-1, 00-3, 06-3, 06-5, and 06-6 to be material weaknesses.

Compliance and Other Matters

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

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, tax increment financing, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, Cottonwood County complied with the material items and conditions of applicable legal provisions.

Also included in the Schedule of Findings and Recommendations are a management practices comment and an other item for consideration. We believe this recommendation and information to be of benefit to Cottonwood County, and they are reported for that purpose.

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

January 22, 2009