

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

COTTONWOOD COUNTY
WINDOM, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2010

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, 2010



**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
2010

Office	Name	Term Expires
Commissioners		
1st District	Gary Sorenson	January 2011
2nd District	Ron Kuecker ²	January 2013
3rd District	Tom White ¹	January 2011
4th District	Norm Holmen	January 2013
5th District	John Oeltjenbruns	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	May 31, 2013
Veterans Service Officer	Todd Dibble	Indefinite
Environmental Officer	Mike Hansen ³	Indefinite
Emergency Services Director	Kim Hall	Indefinite
Family Service Director	Craig Myers	Indefinite

¹Chair 2010

²Chair 2011

³Resigned effective November 1, 2010, replaced by Andrew Geiger in April 2011

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Cottonwood County

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Cottonwood County, Minnesota, as of and for the year ended December 31, 2010, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Cottonwood County as of December 31, 2010, 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.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2011, on our consideration of Cottonwood County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 27, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010
(Unaudited)**

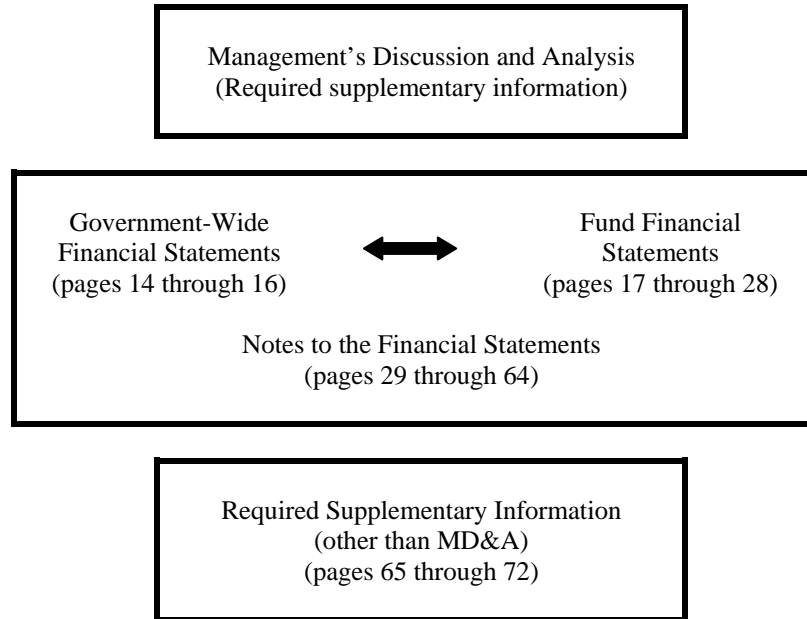
Cottonwood County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2010. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements (beginning on page 14).

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$52,416,904, of which \$42,827,513 is invested in capital assets, net of related debt, leaving \$2,521,241 of the governmental activities' net assets restricted for specific uses and \$7,068,150 as unrestricted.
- Business-type activities have total net assets of \$1,837,876, of which \$296,963 is invested in capital assets, net of related debt, leaving \$551,867 of the business-type net assets restricted for specific uses and \$989,046 as unrestricted.
- Cottonwood County's net assets increased by \$344,275 for the year ended December 31, 2010. Of the increase, \$297,150 was in the governmental activities' net assets; \$47,125 represented the increase in business-type activities' net assets.
- The net cost of governmental activities was \$7,456,614 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$7,753,764.
- Governmental funds' fund balances increased by \$849,933. This net increase was due mainly to increased revenues and/or decreased expenditures in the Family Services, Ditch, and Building Special Revenue Funds and the General Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

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



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

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

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

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

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

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

Fund Financial Statements

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

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

Reporting the County's Fiduciary Responsibilities

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

Other Information

In addition to the basic financial statements and notes, this report also presents certain required supplementary information concerning Cottonwood County's progress in funding its obligation to provide other postemployment benefits to its employees. Required supplementary information can be found on pages 65 through 72.

THE COUNTY AS A WHOLE

The County's combined net assets are \$54,254,780. 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

	2010			2009
	Governmental Activities	Business-Type Activities	Total	
Assets				
Current and other assets	\$ 13,696,749	\$ 2,730,171	\$ 16,426,920	\$ 16,020,629
Capital assets	<u>42,829,037</u>	<u>296,963</u>	<u>43,126,000</u>	<u>43,074,942</u>
Total Assets	<u>\$ 56,525,786</u>	<u>\$ 3,027,134</u>	<u>\$ 59,552,920</u>	<u>\$ 59,095,571</u>
Liabilities				
Long-term liabilities	\$ 3,078,465	\$ 1,133,367	\$ 4,211,832	\$ 4,360,161
Other liabilities	<u>1,030,417</u>	<u>55,891</u>	<u>1,086,308</u>	<u>824,905</u>
Total Liabilities	<u>\$ 4,108,882</u>	<u>\$ 1,189,258</u>	<u>\$ 5,298,140</u>	<u>\$ 5,185,066</u>
Net Assets				
Invested in capital assets, net of related debt	\$ 42,827,513	\$ 296,963	\$ 43,124,476	\$ 43,083,400
Restricted	2,521,241	551,867	3,073,108	3,502,707
Unrestricted	<u>7,068,150</u>	<u>989,046</u>	<u>8,057,196</u>	<u>7,324,398</u>
Total Net Assets	<u>\$ 52,416,904</u>	<u>\$ 1,837,876</u>	<u>\$ 54,254,780</u>	<u>\$ 53,910,505</u>

Net assets of the County's governmental activities were \$52,416,904. 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 \$7,068,150 at the end of the year. The net assets of business-type activities were \$1,837,876.

Table 2
Changes in Net Assets
(in Thousands)

	2010			2009
	Governmental Activities	Business-Type Activities	Total	
Revenues				
Program revenues				
Fees, fines, and charges	\$ 1,389	\$ 459	\$ 1,848	\$ 1,784
Operating grants and contributions	5,941	-	5,941	5,507
Capital grants and contributions	36	-	36	477
General revenues				
Property taxes	6,288	-	6,288	5,929
Other taxes	5	-	5	6
Grants, gifts, and miscellaneous	1,512	-	1,512	2,035
Total Revenues	\$ 15,171	\$ 459	\$ 15,630	\$ 15,738
Expenses				
General government	\$ 2,308	\$ -	\$ 2,308	\$ 2,078
Public safety	2,082	-	2,082	2,046
Highways and streets	4,813	-	4,813	3,570
Sanitation	245	-	245	243
Human services	4,411	-	4,411	4,395
Health	145	-	145	132
Culture and recreation	206	-	206	229
Conservation of natural resources	546	-	546	505
Interest	66	-	66	71
Landfill	-	464	464	406
Total Expenses	\$ 14,822	\$ 464	\$ 15,286	\$ 13,675
Increase (Decrease) Before Transfers	\$ 349	\$ (5)	\$ 344	\$ 2,063
Transfers	(52)	52	-	-
Increase (Decrease) in Net Assets	\$ 297	\$ 47	\$ 344	\$ 2,063
Net Assets - January 1	52,120	1,791	53,911	51,848
Net Assets - December 31	<u>\$ 52,417</u>	<u>\$ 1,838</u>	<u>\$ 54,255</u>	<u>\$ 53,911</u>

The County's activities increased net assets by 0.64 percent (\$54,254,780 for 2010 compared to \$53,910,505 for 2009).

TOTAL COUNTY REVENUE

Governmental Activities

Revenues for the County's governmental activities (see Table 2) were \$15,171,694, while total expenses were \$14,822,039, and transfers out were \$52,505. This reflects a \$297,150 increase in net assets for the year ended December 31, 2010.

Business-Type Activities

Revenues of the County's business-type activities (see Table 2) were \$459,367, transfers in were \$52,505, and expenses were \$464,747. This reflects a \$47,125 increase in net assets for the year ending December 31, 2010.

Governmental Activities' Expenses

The cost of the County's governmental activities this year was \$14,822,039. 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 \$7,456,614, because some of the cost was paid by those who directly benefited from the programs (\$1,388,537) or by other governments and organizations that subsidized certain programs with grants and contributions (\$5,976,888).

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)

	2010	
	Total Cost of Services	Net Cost of Services
Highways and streets	\$ 4,813	\$ 1,567
Human services	4,411	1,953
General government	2,308	1,825
Public safety	2,082	1,632
Conservation of natural resources	546	170
All others	662	310
Totals	<u>\$ 14,822</u>	<u>\$ 7,457</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 \$8,909,699, which is above last year's total of \$8,059,766. The governmental funds' change in fund balance (an increase of \$849,933 for 2010) represents a 10.5 percent increase in governmental fund balances. Most of the governmental funds' increase is due to decreased liabilities.

General Fund Budgetary Highlights

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

With these adjustments, the actual charges to appropriations (expenditures) were \$118,573 above the final budget amounts. The reason for variances of actual expenditures from final budget in this case is the expenditure of unbudgeted Water Quality Loan program payments.

On the other hand, resources available for appropriation were \$498,027 above the final budgeted amount. Increased tax collection and federal road construction reimbursement helped push revenues above expected levels.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2010, the County had \$43,126,000 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 \$51,058, or less than 1 percent, over last year.

Table 4
Changes in Capital Assets During 2010

Governmental Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 315,824	\$ -	\$ -	\$ 315,824
Right-of-way	780,503	15,380	-	795,883
Construction in progress	104,047	-	102,650	1,397
Total capital assets not depreciated	<u>\$ 1,200,374</u>	<u>\$ 15,380</u>	<u>\$ 102,650</u>	<u>\$ 1,113,104</u>

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Buildings	\$ 4,666,919	\$ 35,500	\$ 14,740	\$ 4,687,679
Machinery and equipment	4,996,739	244,137	107,993	5,132,883
Infrastructure	49,853,946	2,058,433	718,134	51,194,245
Total capital assets depreciated	\$ 59,517,604	\$ 2,338,070	\$ 840,867	\$ 61,014,807
Less: accumulated depreciation for				
Buildings	\$ 2,043,267	\$ 119,625	\$ 9,854	\$ 2,153,038
Machinery and equipment	3,486,746	357,325	105,569	3,738,502
Infrastructure	12,450,202	996,454	39,322	13,407,334
Total accumulated depreciation	\$ 17,980,215	\$ 1,473,404	\$ 154,745	\$ 19,298,874
Total capital assets depreciated, net	\$ 41,537,389	\$ 864,666	\$ 686,122	\$ 41,715,933
Governmental Activities Capital Assets, Net	<u>\$ 42,737,763</u>	<u>\$ 880,046</u>	<u>\$ 788,772</u>	<u>\$ 42,829,037</u>

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 163,882	\$ -	\$ -	\$ 163,882
Capital assets depreciated				
Buildings	\$ 23,700	\$ -	\$ -	\$ 23,700
Machinery and equipment	495,921	21,442	57,033	460,330
Total capital assets depreciated	\$ 519,621	\$ 21,442	\$ 57,033	\$ 484,030
Less: accumulated depreciation for				
Buildings	\$ 19,816	\$ 790	\$ -	\$ 20,606
Machinery and equipment	326,508	44,537	40,702	330,343
Total accumulated depreciation	\$ 346,324	\$ 45,327	\$ 40,702	\$ 350,949
Total capital assets depreciated, net	\$ 173,297	\$ (23,885)	\$ 16,331	\$ 133,081
Business-Type Activities Capital Assets, Net	<u>\$ 337,179</u>	<u>\$ (23,885)</u>	<u>\$ 16,331</u>	<u>\$ 296,963</u>

The County's fiscal year 2010 capital budget called for it to spend \$4,342,000 on highway and bridge construction and \$160,187 on road and bridge equipment purchases, all to be financed with resources on hand in existing County funds. For the other projects, it used resources on hand in the County's Road and Bridge Special Revenue Fund.

Debt

At the end of the current fiscal year, the County had total outstanding debt of \$4,211,832, versus \$4,360,161 last year--a decrease of 3.40 percent--as shown in Table 5.

Table 5
Changes in Outstanding Debt During 2010

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable (fund liquidating the debt)					
Special assessment debt with government commitment (Ditch)	\$ 1,555,000	\$ -	\$ 160,000	\$ 1,395,000	\$ 155,000
Less: unamortized discount	(19,875)	-	(2,485)	(17,390)	-
Total bonds payable	\$ 1,535,125	\$ -	\$ 157,515	\$ 1,377,610	\$ 155,000
Loans payable	997,148	115,572	117,656	995,064	133,210
Capital lease	18,040	-	16,516	1,524	1,524
Compensated absences	680,468	23,799	-	704,267	41,819
Governmental Activities Long-Term Liabilities	<u>\$ 3,230,781</u>	<u>\$ 139,371</u>	<u>\$ 291,687</u>	<u>\$ 3,078,465</u>	<u>\$ 331,553</u>

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Estimated liability for landfill closure and postclosure care	\$ 1,111,306	\$ 3,408	\$ -	\$ 1,114,714	\$ -
Compensated absences	18,074	579	-	18,653	-
Business-Type Activities Long-Term Liabilities	<u>\$ 1,129,380</u>	<u>\$ 3,987</u>	<u>\$ -</u>	<u>\$ 1,133,367</u>	<u>\$ -</u>

The County's general obligation bond rating is an A3. This rating is assigned by national rating agencies. The state limits the amount of net debt that counties can issue to three percent of the market value of all taxable property (\$1,993,173,700) in the county. The County's outstanding net debt (\$4,211,832) is significantly below this state-imposed limit (\$59,795,211).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting landfill fees, the fiscal year 2011 budget, and property tax rates.

- Cottonwood County is anticipating reductions of state aids to local governments. The County will do its best to maintain a stable service environment even if state reductions are implemented.
- County General Fund expenditures for 2011 are budgeted to increase 2.18 percent from 2010.
- Property taxes levied have increased 4.00 percent for 2011.

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, 2010**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Cash and pooled investments	\$ 9,159,019	\$ 1,014,054	\$ 10,173,073
Receivables - net	4,310,661	50,161	4,360,822
Internal balances	625	(625)	-
Inventories	156,351	-	156,351
Prepaid items	4,883	-	4,883
Restricted assets			
Cash and pooled investments	-	1,666,581	1,666,581
Deferred charges	14,476	-	14,476
Net OPEB asset	50,734	-	50,734
Capital assets			
Non-depreciable capital assets	1,113,104	163,882	1,276,986
Depreciable capital assets - net of accumulated depreciation	41,715,933	133,081	41,849,014
Total Assets	\$ 56,525,786	\$ 3,027,134	\$ 59,552,920
<u>Liabilities</u>			
Accounts payable and other current liabilities	\$ 944,702	\$ 55,891	\$ 1,000,593
Accrued interest payable	21,386	-	21,386
Unearned revenue	64,329	-	64,329
Long-term liabilities			
Due within one year	331,553	-	331,553
Due in more than one year	2,746,912	1,133,367	3,880,279
Total Liabilities	\$ 4,108,882	\$ 1,189,258	\$ 5,298,140
<u>Net Assets</u>			
Invested in capital assets - net of related debt	\$ 42,827,513	\$ 296,963	\$ 43,124,476
Restricted for			
Public safety	384,625	-	384,625
Human services	14,016	-	14,016
Highways and streets	1,670,764	-	1,670,764
Conservation of natural resources	177,013	-	177,013
Economic development	25,886	-	25,886
Postclosure	-	551,867	551,867
Other purposes	248,937	-	248,937
Unrestricted	7,068,150	989,046	8,057,196
Total Net Assets	\$ 52,416,904	\$ 1,837,876	\$ 54,254,780

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Expenses	Fees, Charges, Fines, and Other
Functions/Programs		
Governmental activities		
General government	\$ 2,307,755	\$ 275,185
Public safety	2,082,322	194,673
Highways and streets	4,813,253	71,194
Sanitation	245,350	198,399
Human services	4,411,345	465,890
Health	144,819	-
Culture and recreation	206,062	53,328
Conservation of natural resources	545,598	129,868
Interest	65,535	-
	\$ 14,822,039	\$ 1,388,537
Business-type activities		
Landfill	464,747	459,367
	\$ 15,286,786	\$ 1,847,904

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

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
\$ 207,270	\$ -	\$ (1,825,300)	\$ -	\$ (1,825,300)
234,273	21,243	(1,632,133)	-	(1,632,133)
3,160,512	14,692	(1,566,855)	-	(1,566,855)
55,950	-	8,999	-	8,999
1,992,246	-	(1,953,209)	-	(1,953,209)
-	-	(144,819)	-	(144,819)
44,579	-	(108,155)	-	(108,155)
246,123	-	(169,607)	-	(169,607)
-	-	(65,535)	-	(65,535)
\$ 5,940,953	\$ 35,935	\$ (7,456,614)	\$ -	\$ (7,456,614)
-	-	-	(5,380)	(5,380)
\$ 5,940,953	\$ 35,935	\$ (7,456,614)	\$ (5,380)	\$ (7,461,994)
		\$ 6,288,646	\$ -	\$ 6,288,646
		5,492	-	5,492
		935,996	-	935,996
		94,092	-	94,092
		306,293	-	306,293
		175,750	-	175,750
		(52,505)	52,505	-
		\$ 7,753,764	\$ 52,505	\$ 7,806,269
		\$ 297,150	\$ 47,125	\$ 344,275
		52,119,754	1,790,751	53,910,505
		\$ 52,416,904	\$ 1,837,876	\$ 54,254,780

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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, 2010**

	General	Road and Bridge	Family Services	Ditch	Building	Total Governmental Funds
<u>Assets</u>						
Cash and pooled investments	\$ 7,327,635	\$ 16,818	\$ 964,504	\$ 501,318	\$ 178,035	\$ 8,988,310
Petty cash and change funds	3,150	-	-	-	-	3,150
Undistributed cash in agency funds	93,456	22,338	47,557	3,082	1,126	167,559
Taxes receivable						
Prior	40,466	12,170	25,509	-	617	78,762
Special assessments receivable						
Prior	20,950	251	-	145	-	21,346
Noncurrent	624,512	-	-	1,296,917	-	1,921,429
Accounts receivable	19,028	-	28,869	-	-	47,897
Accrued interest receivable	36,137	-	-	-	-	36,137
Loans receivable	25,000	-	-	-	-	25,000
Due from other funds	1,013	3,604	37	-	-	4,654
Due from other governments	91,030	1,838,536	250,524	-	-	2,180,090
Inventories	-	156,351	-	-	-	156,351
Advances to other funds	302,665	-	-	-	-	302,665
Prepaid items	4,883	-	-	-	-	4,883
Total Assets	<u>\$ 8,589,925</u>	<u>\$ 2,050,068</u>	<u>\$ 1,317,000</u>	<u>\$ 1,801,462</u>	<u>\$ 179,778</u>	<u>\$ 13,938,233</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010**

	General	Road and Bridge	Family Services	Ditch	Building	Total Governmental Funds
<u>Liabilities and Fund Balances</u>						
Liabilities						
Accounts payable	\$ 37,783	\$ 44,794	\$ 154,420	\$ -	\$ -	\$ 236,997
Salaries payable	118,344	50,324	75,498	-	-	244,166
Contracts payable	-	376,303	-	-	17,000	393,303
Due to other funds	2,966	50	1,013	-	-	4,029
Due to other governments	15,339	6,241	48,656	-	-	70,236
Deferred revenue - unavailable	701,040	1,688,581	25,509	1,297,062	617	3,712,809
Deferred revenue - unearned	64,329	-	-	-	-	64,329
Advances from other funds	-	200,000	-	102,665	-	302,665
Total Liabilities	\$ 939,801	\$ 2,366,293	\$ 305,096	\$ 1,399,727	\$ 17,617	\$ 5,028,534
Fund Balances						
Reserved for						
Inventories	\$ -	\$ 156,351	\$ -	\$ -	\$ -	\$ 156,351
Advances to other funds	302,665	-	-	-	-	302,665
Low-interest small business loans	25,886	-	-	-	-	25,886
Sheriff's contingency	316	-	-	-	-	316
Permit to carry	14,476	-	-	-	-	14,476
Enhanced 911	384,309	-	-	-	-	384,309
Loans receivable	25,000	-	-	-	-	25,000
Prepaid items	4,883	-	-	-	-	4,883
Missing heirs	3,425	-	-	-	-	3,425
Law library	25,470	-	-	-	-	25,470
Recorder's technology fund	42,346	-	-	-	-	42,346
Recorder's compliance fund	44,373	-	-	-	-	44,373
Canteen fund	18,512	-	-	-	-	18,512
Transportation	55,122	-	-	-	-	55,122
Septic/sewer loans	540,481	-	-	-	-	540,481
Election equipment	78,201	-	-	-	-	78,201
Unspent grant monies	-	-	14,016	-	-	14,016
Unreserved						
Designated for unrealized gain on investments	156,024	-	-	-	-	156,024
Undesignated	5,928,635	(472,576)	997,888	401,735	162,161	7,017,843
Total Fund Balances	\$ 7,650,124	\$ (316,225)	\$ 1,011,904	\$ 401,735	\$ 162,161	\$ 8,909,699
Total Liabilities and Fund Balances	\$ 8,589,925	\$ 2,050,068	\$ 1,317,000	\$ 1,801,462	\$ 179,778	\$ 13,938,233

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2010**

Fund balances - total governmental funds (Exhibit 3)	\$	8,909,699
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.		42,829,037
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		3,712,809
Net OPEB assets		50,734
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	\$ (1,395,000)	
Capital leases	(1,524)	
Loans payable	(995,064)	
Compensated absences	(704,267)	
Accrued interest payable	(21,386)	
Unamortized discount on general obligation refunding bonds	17,390	
Deferred debt issuance charges	14,476	
		(3,085,375)
Net Assets of Governmental Activities (Exhibit 1)	\$	<u>52,416,904</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	General	Road and Bridge
Revenues		
Taxes	\$ 3,430,816	\$ 905,166
Special assessments	364,194	37
Licenses and permits	7,319	-
Intergovernmental	1,465,769	3,825,051
Charges for services	324,220	24,675
Fines and forfeits	6,770	-
Gifts and contributions	100	-
Investment earnings	305,799	-
Miscellaneous	285,356	42,019
Total Revenues	\$ 6,190,343	\$ 4,796,948
Expenditures		
Current		
General government	\$ 2,152,705	\$ -
Public safety	2,070,426	-
Highways and streets	-	4,596,728
Sanitation	237,040	-
Human services	-	-
Health	14,950	-
Culture and recreation	182,125	-
Conservation of natural resources	517,744	-
Intergovernmental	129,869	296,454
Debt service		
Principal	134,172	-
Interest	9,924	-
Administrative (fiscal) charges	-	-
Total Expenditures	\$ 5,448,955	\$ 4,893,182
Excess of Revenues Over (Under) Expenditures	\$ 741,388	\$ (96,234)
Other Financing Sources (Uses)		
Transfers in	\$ 12,500	\$ -
Transfers out	(65,593)	-
Proceeds from sale of assets	-	4,500
Loans issued	115,572	-
Total Other Financing Sources (Uses)	\$ 62,479	\$ 4,500
Net Change in Fund Balances	\$ 803,867	\$ (91,734)
Fund Balances - January 1	6,846,257	(173,625)
Increase (decrease) in reserved for inventories	-	(50,866)
Fund Balances - December 31	\$ 7,650,124	\$ (316,225)

EXHIBIT 5

Family Services	Ditch	Building	Total
\$ 1,930,341	\$ -	\$ 45,765	\$ 6,312,088
-	303,979	-	668,210
-	-	-	7,319
2,124,788	-	3,036	7,418,644
45,031	-	-	393,926
-	-	-	6,770
-	-	-	100
-	-	-	305,799
420,859	488	88,571	837,293
\$ 4,521,019	\$ 304,467	\$ 137,372	\$ 15,950,149
\$ -	\$ -	\$ 77,811	\$ 2,230,516
-	-	-	2,070,426
-	-	-	4,596,728
-	-	-	237,040
4,420,761	-	-	4,420,761
-	-	-	14,950
-	-	-	182,125
-	63,315	-	581,059
-	-	-	426,323
-	160,000	-	294,172
-	52,468	-	62,392
-	425	-	425
\$ 4,420,761	\$ 276,208	\$ 77,811	\$ 15,116,917
\$ 100,258	\$ 28,259	\$ 59,561	\$ 833,232
\$ -	\$ 588	\$ -	\$ 13,088
-	-	-	(65,593)
-	-	-	4,500
-	-	-	115,572
\$ -	\$ 588	\$ -	\$ 67,567
\$ 100,258	\$ 28,847	\$ 59,561	\$ 900,799
911,646	372,888	102,600	8,059,766
-	-	-	(50,866)
\$ 1,011,904	\$ 401,735	\$ 162,161	\$ 8,909,699

**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, 2010**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 900,799

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	\$ 3,712,809	
Deferred revenue - January 1	<u>(4,495,764)</u>	(782,955)

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

Capital outlay expenditures	\$ 2,250,800	
Net book value of asset disposals	(686,122)	
Current year depreciation	<u>(1,473,404)</u>	91,274

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.

Proceeds of new debt		
Loans issued		(115,572)
Principal payments		
General obligation bonds	\$ 160,000	
Capital lease	16,516	
Loans payable	<u>117,656</u>	294,172

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in accrued interest payable	\$ 1,835	
Amortization of discounts and deferred issuance charges	(4,553)	
Change in compensated absences	(23,799)	
Change in net OPEB	(13,185)	
Change in inventories	<u>(50,866)</u>	(90,568)

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 297,150

PROPRIETARY FUND

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FUND NET ASSETS
PROPRIETARY FUND
DECEMBER 31, 2010**

	<u>Landfill Enterprise Fund</u>
<u>Assets</u>	
Current assets	
Cash and pooled investments	\$ 1,014,002
Undistributed cash in agency funds	52
Taxes receivable	
Prior	708
Accounts receivable - net	49,453
Due from other funds	50
Restricted assets	
Cash and pooled investments	<u>1,666,581</u>
Total current assets	<u>\$ 2,730,846</u>
Noncurrent assets	
Capital assets	
Nondepreciable	\$ 163,882
Depreciable - net	<u>133,081</u>
Total noncurrent assets	<u>\$ 296,963</u>
Total Assets	<u>\$ 3,027,809</u>
<u>Liabilities</u>	
Current liabilities	
Accounts payable	\$ 13,337
Salaries payable	4,255
Contracts payable	38,299
Due to other funds	<u>675</u>
Total current liabilities	<u>\$ 56,566</u>
Noncurrent liabilities	
Compensated absences payable - long-term	\$ 18,653
Estimated liability for landfill closure/postclosure	<u>1,114,714</u>
Total noncurrent liabilities	<u>\$ 1,133,367</u>
Total Liabilities	<u>\$ 1,189,933</u>
<u>Net Assets</u>	
Invested in capital assets	\$ 296,963
Restricted for postclosure	551,867
Unrestricted	<u>989,046</u>
Total Net Assets	<u>\$ 1,837,876</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Landfill Enterprise Fund</u>
Operating Revenues	
Charges for services	\$ 449,086
Miscellaneous	10,281
	\$ 459,367
Operating Expenses	
Personal services	\$ 140,134
Professional services	20,092
Other services and charges	246,671
Utilities	9,115
Depreciation	45,327
Landfill closure and postclosure costs	3,408
	\$ 464,747
Operating Income (Loss)	\$ (5,380)
Transfers in	\$ 65,005
Transfers out	(12,500)
	\$ 47,125
Change in Net Assets	\$ 47,125
Net Assets - January 1	1,790,751
Net Assets - December 31	\$ 1,837,876

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2010
Increase (Decrease) in Cash and Cash Equivalents**

	<u>Landfill Enterprise Fund</u>
Cash Flows from Operating Activities	
Receipts from customers and users	\$ 432,554
Payments to suppliers	(242,824)
Payments to employees	(139,756)
	\$ 49,974
Cash Flows from Noncapital Financing Activities	
Transfers in	\$ 65,005
Transfers out	(12,500)
	\$ 52,505
Cash Flows from Capital and Related Financing Activities	
Property taxes	\$ 1,207
Purchase of capital assets	(21,442)
	\$ (20,235)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 82,244
Cash and Cash Equivalents - January 1	2,598,391
Cash and Cash Equivalents - December 31	\$ 2,680,635
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets - Exhibit 7	
Cash and pooled investments	\$ 1,014,002
Undistributed cash in agency funds	52
Restricted cash and pooled investments	1,666,581
	\$ 2,680,635

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2010
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)	\$ (5,380)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 45,327
Loss on disposal of assets	16,331
Landfill closure and postclosure expense	3,408
(Increase) decrease in accounts receivable	(26,763)
(Increase) decrease in due from other funds	(50)
Increase (decrease) in accounts payable	(21,039)
Increase (decrease) in salaries payable	(201)
Increase (decrease) in contracts payable	38,299
Increase (decrease) in due to other funds	(537)
Increase (decrease) in compensated absences payable	579
Total adjustments	\$ 55,354
Net Cash Provided by (Used in) Operating Activities	\$ 49,974

FIDUCIARY FUNDS

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COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2010

	<u>Investment Trust</u>	<u>Agency</u>
<u>Assets</u>		
Cash and pooled investments	\$ 171,850	\$ 1,894,270
Accrued interest receivable	69	-
Total Assets	\$ 171,919	\$ 1,894,270
<u>Liabilities</u>		
Due to other governments	-	\$ 1,894,270
<u>Net Assets</u>		
Net assets, held in trust for pool participant	\$ 171,919	

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT 11

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Investment Trust</u>
<u>Additions</u>	
Contributions from participant	\$ 158,434
Investment income	1,339
Miscellaneous revenue	<u>2,407</u>
Total Additions	\$ 162,180
<u>Deductions</u>	
Distributions to participant	<u>123,085</u>
Change in Net Assets	\$ 39,095
Net Assets - January 1	<u>132,824</u>
Net Assets - December 31	<u><u>\$ 171,919</u></u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2010

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, 2010. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The County has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds and has chosen to do so. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

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

B. Basic Financial Statements

1. Government-Wide Statements

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

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

2. Fund Financial Statements

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

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

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

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

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

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

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

The County reports the following major enterprise fund:

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

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.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

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

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

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.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled investments are reported at their fair value at December 31, 2010, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments of governmental funds are credited to the General Fund. Pooled investment earnings for 2010 were \$305,799.

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

3. Receivables and Payables

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

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

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

4. Special Assessments Receivable

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

5. Inventories and Prepaid Items

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

6. Restricted Assets

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Capital Assets

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

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

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

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

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

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

8. Compensated Absences (Continued)

who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if it has matured, for example, as a result of employee resignations and retirements.

9. Deferred Revenue

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

10. Long-Term Obligations

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

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

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.

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

For internal accounting purposes, individual ditch system records are maintained on a basis which shows long-term debt payable, recognizes special assessments as revenues when levied, and does not eliminate interfund transactions. Using this basis of accounting, 11 of 94 drainage systems have deficit unreserved, undesignated fund balances at December 31, 2010. 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	\$ 711,422
Account balance deficits	<u>(396,947)</u>
Total	<u>\$ 314,475</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 \$401,735 when reported on the modified accrual basis.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

2. Stewardship, Compliance, and Accountability (Continued)

B. Deficit Fund Balance

The Road and Bridge Special Revenue Fund has a deficit fund balance of \$316,225 at December 31, 2010. The General Fund has advanced cash of \$200,000 to the Road and Bridge Special Revenue Fund as of December 31, 2010. The County intends to address this deficit as part of the budget process for the 2012 budget.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 9,159,019
Business-type activities	
Cash and pooled investments	1,014,054
Cash and pooled investments - restricted assets	1,666,581
Statement of fiduciary net assets	
Cash and pooled investments	
Investment Trust Fund	171,850
Agency funds	1,894,270
	<hr/>
Total Cash and Investments	\$ 13,905,774
	<hr/>

a. Deposits

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

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better and revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County has adopted a policy for custodial credit risk by obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law. As of December 31, 2010, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

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.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County has adopted a policy for custodial credit risk by permitting brokers that obtain investments for the County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. At December 31, 2010, 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, 2010, 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	\$ 6,767,423
Checking					3,370,996
Savings					2,468,205
Certificates of deposit					1,296,000
Petty cash					3,150
Total Cash and Investments					<u>\$ 13,905,774</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, 2010, for the County's governmental activities and business-type activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 78,762	\$ -
Special assessments - prior	21,346	-
Special assessments - noncurrent	1,921,429	1,635,655
Accounts	47,897	-
Interest	36,137	-
Loans	25,000	-
Due from other governments	2,180,090	-
Total Governmental Activities	\$ 4,310,661	\$ 1,635,655
Business-Type Activities		
Taxes	\$ 708	\$ -
Accounts	49,453	-
Total Business-Type Activities	\$ 50,161	\$ -

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, 2010, there is one loan outstanding of \$25,000 to Windom Economic Development.

Loan payments may be reloaned to other businesses. At December 31, 2010, 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, 2010, was as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 315,824	\$ -	\$ -	\$ 315,824
Right-of-way	780,503	15,380	-	795,883
Construction in progress	104,047	-	102,650	1,397
Total capital assets not depreciated	<u>\$ 1,200,374</u>	<u>\$ 15,380</u>	<u>\$ 102,650</u>	<u>\$ 1,113,104</u>
Capital assets depreciated				
Buildings	\$ 4,666,919	\$ 35,500	\$ 14,740	\$ 4,687,679
Machinery and equipment	4,996,739	244,137	107,993	5,132,883
Infrastructure	49,853,946	2,058,433	718,134	51,194,245
Total capital assets depreciated	<u>\$ 59,517,604</u>	<u>\$ 2,338,070</u>	<u>\$ 840,867</u>	<u>\$ 61,014,807</u>
Less: accumulated depreciation for				
Buildings	\$ 2,043,267	\$ 119,625	\$ 9,854	\$ 2,153,038
Machinery and equipment	3,486,746	357,325	105,569	3,738,502
Infrastructure	12,450,202	996,454	39,322	13,407,334
Total accumulated depreciation	<u>\$ 17,980,215</u>	<u>\$ 1,473,404</u>	<u>\$ 154,745</u>	<u>\$ 19,298,874</u>
Total capital assets depreciated, net	<u>\$ 41,537,389</u>	<u>\$ 864,666</u>	<u>\$ 686,122</u>	<u>\$ 41,715,933</u>
Governmental Activities Capital Assets, Net	<u>\$ 42,737,763</u>	<u>\$ 880,046</u>	<u>\$ 788,772</u>	<u>\$ 42,829,037</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	495,921	21,442	57,033	460,330
Total capital assets depreciated	<u>\$ 519,621</u>	<u>\$ 21,442</u>	<u>\$ 57,033</u>	<u>\$ 484,030</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Business-Type Activities (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	\$ 19,816	\$ 790	\$ -	\$ 20,606
Machinery and equipment	326,508	44,537	40,702	330,343
Total accumulated depreciation	\$ 346,324	\$ 45,327	\$ 40,702	\$ 350,949
Total capital assets depreciated, net	\$ 173,297	\$ (23,885)	\$ 16,331	\$ 133,081
Business-Type Activities				
Capital Assets, Net	\$ 337,179	\$ (23,885)	\$ 16,331	\$ 296,963

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

Governmental Activities	
General government	\$ 60,455
Public safety	38,206
Highways and streets, including depreciation of infrastructure assets	1,303,528
Sanitation	8,830
Human services	32,849
Culture and recreation	29,536
Total Depreciation Expense - Governmental Activities	\$ 1,473,404
Business-Type Activities	
Landfill	\$ 45,327

**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, 2010, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Family Services	\$ 1,013
Road and Bridge	General	2,929
Road and Bridge	Landfill Enterprise	675
Family Services	General	37
Landfill Enterprise	Road and Bridge	50
Total Due To/From Other Funds		\$ 4,704

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

2. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General	Road and Bridge	\$ 200,000
General	Ditch	102,665
Total Advances To/From Other Funds		\$ 302,665

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

The advance to the Ditch Special Revenue Fund is to provide working capital to ditch systems with low reserves and current operating costs in excess of its revenues. This balance will be paid from future ditch special assessments.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

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

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2010, consisted of the following:

Transfers to General Fund from Landfill Fund	\$ 12,500	Provide funds for recycling
Transfer to Ditch Fund from General Fund	588	Interest distribution
Transfers to Landfill Fund from General Fund	<u>65,005</u>	Interest distribution
Total Interfund Transfers	<u>\$ 78,093</u>	

C. Liabilities

1. Payables

Payables at December 31, 2010, were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts	\$ 236,997	\$ 13,337
Salaries	244,166	4,255
Contracts	393,303	38,299
Due to other governments	<u>70,236</u>	<u>-</u>
Total Payables	<u>\$ 944,702</u>	<u>\$ 55,891</u>

2. Construction Commitments

The County has active construction projects as of December 31, 2010. The projects include the following:

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Governmental Activities		
Roads and bridges	\$ 1,599,102	\$ 1,134,449
Courthouse remodeling	<u>-</u>	<u>38,475</u>
Total Governmental Activities	<u>\$ 1,599,102</u>	<u>\$ 1,172,924</u>
Business-Type Activities		
Landfill manhole extension	<u>\$ -</u>	<u>\$ 30,265</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Other Postemployment Benefits (OPEB)

Elected Officials' Benefits

Elected County officials and their dependents and surviving spouses are entitled to one year of paid health insurance for every two years of service to the County. There is no maximum number of years for officials elected prior to 1995. Those elected after 1995 are restricted to a maximum of six years of coverage and, as of February 10, 2004, the maximum was reduced to four years. As of January 1, 2004, the maximum monthly contribution was set at \$720. This post-service benefit is funded on a pay-as-you-go basis. The County had three elected officials who were eligible for this benefit in 2010. The total cost for this program totaled \$14,406 in 2010.

The County also provides health insurance benefits for eligible retired employees and their spouses under a single-employer self-insured plan. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b. Retirees are required to pay 100 percent of the total premium cost. Since the premium is determined on the entire active and retiree population, the retirees are receiving implicit rate subsidy. This postemployment benefit is funded on a pay-as-you-go basis usually paying retiree benefits out of the General Fund. At January 1, 2008, the date of the last valuation, there were approximately 120 participants in the plan, including 12 retirees. The implicit rate subsidy amount was determined by an actuarial study to be \$24,483 for 2010.

Annual OPEB Cost and Net OPEB Obligation

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

ARC	\$	50,778
Interest on net OPEB obligation (asset)		(1,918)
Adjustment to ARC		3,214
		3,214
Annual OPEB cost (expense)	\$	52,074
Contributions made		(38,889)
		(38,889)
Increase (decrease) in net OPEB obligation	\$	13,185
Net OPEB Obligation (Asset) - January 1		(63,919)
		(63,919)
Net OPEB Obligation (Asset) - December 31	\$	(50,734)
		(50,734)

The County's annual OPEB, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the years ended December 31, 2008, 2009, and 2010 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation (Asset)
December 31, 2008	\$ 50,778	\$ 96,866	190.8%	\$ (46,088)
December 31, 2009	51,712	69,543	134.5	(63,919)
December 31, 2010	52,074	38,889	74.7	(50,734)

Funded Status and Funding Progress

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Other Postemployment Benefits (OPEB)

Funded Status and Funding Progress (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the medical plan cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress - Other Postemployment Benefits, presented as required supplementary information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

In the January 1, 2008, actuarial valuation, the projected unit credit actuarial and the entry age normal cost methods were used. The actuarial assumptions include a 3.0 percent investment rate of return (net of investment expenses), which is Cottonwood County's implicit rate of return on the General Fund. The medical plan cost trend rate is 8.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over five years. Neither rate includes an inflation assumption. The UAAL is being amortized over 30 years on a closed basis as a level dollar amount. The remaining amortization period at December 31, 2010, was 27 years.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Capital Lease

The County has entered into a lease agreement with Alfa-Wireless for financing the upgrade to a 911 Motorola Gold Console in the Law Enforcement Center. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The lease is as follows at December 31, 2010:

<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, 2010</u>
2005 Motorola Gold Console	2011	\$1,357	0.12	<u>\$ 82,950</u>	<u>\$ 1,524</u>

The final lease payment is scheduled for payment in the year ending December 31, 2011. The future minimum lease obligation is \$1,525, with \$1 of this amount representing interest.

5. Long-Term Debt

Governmental Activities

Bonds Payable

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Average Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2010</u>
Special assessment bonds with government commitment					
2005 G.O. Drainage Crossover Refunding Bonds	2020	\$110,000 - \$160,000	3.5586	<u>\$ 1,900,000</u>	\$ 1,395,000
Less: unamortized discount					<u>(17,390)</u>
Total Governmental Activities, Net					<u>\$ 1,377,610</u>

**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.

6. Debt Service Requirements

Debt service requirements at December 31, 2010, were as follows:

Governmental Activities

Year Ending December 31	Special Assessment Bonds		Loans Payable	
	Principal	Interest	Principal	Interest
2011	\$ 155,000	\$ 47,903	\$ 133,210	\$ 10,547
2012	160,000	43,017	143,297	8,756
2013	155,000	37,861	140,324	6,929
2014	155,000	32,553	117,176	5,186
2015	155,000	27,050	98,139	3,747
2016 - 2020	615,000	58,023	243,308	4,840
2021 - 2025	-	-	22,451	-
Total	\$ 1,395,000	\$ 246,407	\$ 897,905	\$ 40,005

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

6. Debt Service Requirements

Governmental Activities (Continued)

Clean water loans in the amount of \$97,159 are not included in the debt service requirements because a fixed repayment schedule is not available.

7. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010, was as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable (fund liquidating the debt)					
Special assessment debt with government commitment (Ditch)	\$ 1,555,000	\$ -	\$ 160,000	\$ 1,395,000	\$ 155,000
Less: unamortized discount	(19,875)	-	(2,485)	(17,390)	-
Total bonds payable	\$ 1,535,125	\$ -	\$ 157,515	\$ 1,377,610	\$ 155,000
Loans payable	997,148	115,572	117,656	995,064	133,210
Capital lease	18,040	-	16,516	1,524	1,524
Compensated absences	680,468	23,799	-	704,267	41,819
Governmental Activities Long-Term Liabilities	<u>\$ 3,230,781</u>	<u>\$ 139,371</u>	<u>\$ 291,687</u>	<u>\$ 3,078,465</u>	<u>\$ 331,553</u>

Business-Type Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Estimated liability for landfill closure and postclosure care	\$ 1,111,306	\$ 3,408	\$ -	\$ 1,114,714	\$ -
Compensated absences	18,074	579	-	18,653	-
Business-Type Activities Long-Term Liabilities	<u>\$ 1,129,380</u>	<u>\$ 3,987</u>	<u>\$ -</u>	<u>\$ 1,133,367</u>	<u>\$ -</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

4. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the County Board reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$1,114,714 landfill closure and postclosure care liability at December 31, 2010, represents the cumulative amount reported to date based on the use of 63 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$656,660 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2010.

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, 2010, the County has \$1,666,581 in restricted assets for these purposes. Cottonwood County expects that future inflation costs will be paid from investment earnings on these annual contributions. However, if investment earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws and regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

5. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. The County has entered into joint powers agreements with other Minnesota municipalities to form the Southwest/West Central Service Cooperative to establish, procure, and administer group employee benefits. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

5. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$450,000 per claim in 2010 and 2011. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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

6. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

6. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

6. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.00 percent, respectively, of their annual covered salary. Public Employees

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

6. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

Police and Fire Fund members are required to contribute 9.40 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2010:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.00
Public Employees Police and Fire Fund	14.10
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2010, 2009, and 2008, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
General Employees Retirement Fund	\$ 262,380	\$ 251,685	\$ 229,309
Public Employees Police and Fire Fund	73,683	64,366	64,628
Public Employees Correctional Fund	33,714	33,755	31,845

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. The plan is established and administered in accordance with Minn. Stat. ch. 353D, which may be amended by the State Legislature. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

6. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

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

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ending December 31, 2010, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 3,563	\$ 3,563
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.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

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

B. Joint Ventures

Cottonwood-Jackson Community Health Services Board

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

The Cottonwood-Jackson Community Health Services Board is made up of the five elected County Commissioners from both Cottonwood and Jackson Counties. Both counties levy a tax to help support the Health Services Board. For 2010, Cottonwood County contributed \$129,869 to the Health Services Board.

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

Red Rock Rural Water System

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

The governing body is composed of nine members appointed to three-year terms by the District Court. Each county is responsible for levying and collecting the special assessments from the benefited properties within the county. The bond issue and notes payable are shown as long-term debt in the financial statements of the Red Rock Rural Water System. Outstanding governmental activities indebtedness at December 31, 2009 (the most current information available), amounted to \$11,845,000, and business-type indebtedness was \$219,586. The Water System's net assets decreased by \$130,750 in 2009.

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Southwest Regional Solid Waste Commission

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

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

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

Southwestern Minnesota Adult Mental Health Consortium Board

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

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

The following is a summary of the Consortium Board's annual financial report for the year ended December 31, 2009 (the latest available):

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

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

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

C. Jointly-Governed Organizations

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

Area II Minnesota River Basin Project

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

Brown-Nicollet-Cottonwood Water Quality Joint Powers Board

The Brown-Nicollet-Cottonwood Water Quality Joint Powers Board helps implement, establish, and maintain a cooperative system of water quality implementation services. During the year, the County made no payments to the Joint Powers Board. The Joint Powers Board dissolved effective December 31, 2010.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Family Service Collaborative

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

Greater Blue Earth River Basin Alliance (GBERBA)

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

Minnesota River Board

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

Redwood-Cottonwood Rivers Control Area

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

Rural Minnesota Energy Board

The Rural Minnesota Energy Board was established in 2005 under the authority of Minn. Stat. § 471.59. The purpose of the Board is to provide policy guidance on issues surrounding energy development in rural Minnesota and to foster the diversification of the economic climate in rural Minnesota. The focus of the Board includes, but is not limited to, renewable energy, wind energy, energy transmission lines, hydrogen energy technology, and bio-diesel and ethanol use. During 2010, Cottonwood County paid \$2,500 to the Board.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Southwest Minnesota Regional Radio Board

The Southwest Minnesota Regional Radio Board Joint Powers Board was established April 22, 2008, between Cottonwood County, the City of Marshall, the City of Worthington, and twelve other counties under authority of Minn. Stat. §§ 471.59 and 403.39. The purpose of the agreement is to formulate a regional radio board to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER). During 2010, Cottonwood County did not contribute to the Joint Powers Board.

D. Agriculture Best Management Loan Program

The County has entered into an agreement with the Minnesota Department of Agriculture and local lending institutions to jointly administer a loan program to individuals to implement projects that prevent or mitigate non-point source water pollution. While the County is not liable for repayment of the loans in any manner, it does have certain responsibilities under the agreement. The County has met those responsibilities for 2010.

E. Subsequent Event

On July 12, 2011, Cottonwood County adopted a resolution for the issuance of \$1,450,000 General Obligation Crossover Refunding Bonds. The bonds were for the Red Rock Rural Water System. The bonds were issued by some of the participating counties in the Rural Water System for a crossover refunding of the principal amount of the Rural Water System's General Obligation Refunding Bonds, Series 2003, and to pay the costs associated with issuing the Series 2010A Bonds.

The debt is paid by the Red Rock Rural Water System from special assessments levied against the benefited property within the Rural Water System. The bonds are general obligations of the issuing counties for which their full faith, credit, and unlimited taxing powers are pledged. The participating counties (Brown, Cottonwood, Lyon, Martin, Murray, Redwood, and Watonwan) have adopted board resolutions and have signed joint powers agreements to define their liability for a proportional share of the debt should the issuing counties make any debt service payments. In such a situation, each of the other counties will promptly reimburse the paying counties in proportion to the

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

E. Subsequent Event (Continued)

percentage of Red Rock Rural Water System customers located in such county, in accordance with Minn. Stat. § 116A.24, subd. 3. The outstanding bonds are reported as liabilities in the annual financial statements of the Red Rock Rural Water System and are not reported as liabilities in the financial statements of any of the seven participating counties. The participating counties disclose a contingent liability due to the guarantee of indebtedness.

REQUIRED SUPPLEMENTARY INFORMATION

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 3,371,249	\$ 3,371,249	\$ 3,430,816	\$ 59,567
Special assessments	353,000	353,000	364,194	11,194
Licenses and permits	9,600	9,600	7,319	(2,281)
Intergovernmental	1,212,542	1,212,542	1,465,769	253,227
Charges for services	314,000	314,000	324,220	10,220
Fines and forfeits	11,000	11,000	6,770	(4,230)
Gifts and contributions	-	-	100	100
Investment earnings	296,000	296,000	305,799	9,799
Miscellaneous	128,975	124,925	285,356	160,431
Total Revenues	\$ 5,696,366	\$ 5,692,316	\$ 6,190,343	\$ 498,027
Expenditures				
Current				
General government				
Commissioners	\$ 269,580	\$ 269,580	\$ 250,817	\$ 18,763
Courts	23,900	23,900	24,051	(151)
Law library	6,000	6,000	10,016	(4,016)
Auditor/treasurer	532,561	532,561	518,008	14,553
Assessor	301,802	301,802	284,554	17,248
Elections	73,545	73,545	74,597	(1,052)
Attorney	294,299	294,299	284,874	9,425
Recorder	189,115	189,115	171,318	17,797
Buildings and plant	146,622	146,622	149,037	(2,415)
Veterans service officer	93,309	93,309	90,367	2,942
Transit	130,689	130,689	127,142	3,547
Other general government	164,832	172,332	167,924	4,408
Total general government	\$ 2,226,254	\$ 2,233,754	\$ 2,152,705	\$ 81,049
Public safety				
Sheriff	\$ 920,979	\$ 920,979	\$ 1,010,764	\$ (89,785)
Emergency services	116,625	116,625	116,418	207
Coroner	11,200	11,200	5,653	5,547
Safety program	4,600	4,600	2,290	2,310
Jail	841,732	841,732	824,710	17,022
Probation and parole	50,243	50,243	110,591	(60,348)
Total public safety	\$ 1,945,379	\$ 1,945,379	\$ 2,070,426	\$ (125,047)
Sanitation				
Recycling	\$ 273,358	\$ 248,558	\$ 237,040	\$ 11,518
Health				
Community health	\$ 4,000	\$ 4,000	\$ 14,950	\$ (10,950)

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Culture and recreation				
Parks	\$ 114,837	\$ 114,837	\$ 81,696	\$ 33,141
Minnesota trails	-	-	44,579	(44,579)
Regional library	55,850	55,850	55,850	-
Total culture and recreation	\$ 170,687	\$ 170,687	\$ 182,125	\$ (11,438)
Conservation of natural resources				
Extension	\$ 126,772	\$ 126,772	\$ 122,740	\$ 4,032
Soil and water conservation	107,400	107,400	75,779	31,621
Water quality loan program	-	-	140,407	(140,407)
Water planning	143,281	143,281	102,251	41,030
Environmental services	103,355	103,355	76,567	26,788
Total conservation of natural resources	\$ 480,808	\$ 480,808	\$ 517,744	\$ (36,936)
Intergovernmental				
Health	\$ 129,869	\$ 129,869	\$ 129,869	\$ -
Debt service				
Principal	\$ 117,327	\$ 117,327	\$ 134,172	\$ (16,845)
Interest	-	-	9,924	(9,924)
Total Expenditures	\$ 5,347,682	\$ 5,330,382	\$ 5,448,955	\$ (118,573)
Excess of Revenues Over (Under) Expenditures	\$ 348,684	\$ 361,934	\$ 741,388	\$ 379,454
Other Financing Sources (Uses)				
Transfers in	\$ 12,500	\$ 12,500	\$ 12,500	\$ -
Transfers out	46,500	-	(65,593)	(65,593)
Loans issued	-	-	115,572	115,572
Total Other Financing Sources (Uses)	\$ 59,000	\$ 12,500	\$ 62,479	\$ 49,979
Net Change in Fund Balance	\$ 407,684	\$ 374,434	\$ 803,867	\$ 429,433
Fund Balance - January 1	6,846,257	6,846,257	6,846,257	-
Fund Balance - December 31	\$ 7,253,941	\$ 7,220,691	\$ 7,650,124	\$ 429,433

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 989,000	\$ 989,000	\$ 905,166	\$ (83,834)
Special assessments	-	-	37	37
Intergovernmental	5,801,623	5,711,623	3,825,051	(1,886,572)
Charges for services	45,000	45,000	24,675	(20,325)
Miscellaneous	74,300	74,300	42,019	(32,281)
Total Revenues	\$ 6,909,923	\$ 6,819,923	\$ 4,796,948	\$ (2,022,975)
Expenditures				
Current				
Highways and streets				
Administration	\$ 244,532	\$ 244,532	\$ 176,927	\$ 67,605
Maintenance	1,442,406	1,442,406	1,101,949	340,457
Construction	4,001,052	4,001,052	2,395,228	1,605,824
Equipment and maintenance shops	1,002,746	856,933	922,624	(65,691)
Total highways and streets	\$ 6,690,736	\$ 6,544,923	\$ 4,596,728	\$ 1,948,195
Intergovernmental				
Highways and streets	275,000	275,000	296,454	(21,454)
Total Expenditures	\$ 6,965,736	\$ 6,819,923	\$ 4,893,182	\$ 1,926,741
Excess of Revenues Over (Under) Expenditures	\$ (55,813)	\$ -	\$ (96,234)	\$ (96,234)
Other Financing Sources (Uses)				
Proceeds from sale of assets	-	-	4,500	4,500
Net Change in Fund Balance	\$ (55,813)	\$ -	\$ (91,734)	\$ (91,734)
Fund Balance - January 1	(173,625)	(173,625)	(173,625)	-
Increase (decrease) in reserved for inventories	-	-	(50,866)	(50,866)
Fund Balance - December 31	\$ (229,438)	\$ (173,625)	\$ (316,225)	\$ (142,600)

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,926,713	\$ 1,926,713	\$ 1,930,341	\$ 3,628
Intergovernmental	2,071,838	2,039,726	2,124,788	85,062
Charges for services	52,991	52,991	45,031	(7,960)
Miscellaneous	417,655	417,655	420,859	3,204
Total Revenues	\$ 4,469,197	\$ 4,437,085	\$ 4,521,019	\$ 83,934
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,165,349	\$ 1,116,694	\$ 1,039,192	\$ 77,502
Social services	3,278,603	3,278,603	3,381,569	(102,966)
Total Expenditures	\$ 4,443,952	\$ 4,395,297	\$ 4,420,761	\$ (25,464)
Net Change in Fund Balance	\$ 25,245	\$ 41,788	\$ 100,258	\$ 58,470
Fund Balance - January 1	911,646	911,646	911,646	-
Fund Balance - December 31	\$ 936,891	\$ 953,434	\$ 1,011,904	\$ 58,470

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
BUILDING SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 46,964	\$ 46,964	\$ 45,765	\$ (1,199)
Intergovernmental	3,036	3,036	3,036	-
Miscellaneous	51,400	51,400	88,571	37,171
Total Revenues	\$ 101,400	\$ 101,400	\$ 137,372	\$ 35,972
Expenditures				
Current				
General government				
Buildings and plant	101,400	101,400	77,811	23,589
Net Change in Fund Balance	\$ -	\$ -	\$ 59,561	\$ 59,561
Fund Balance - January 1	102,600	102,600	102,600	-
Fund Balance - December 31	\$ 102,600	\$ 102,600	\$ 162,161	\$ 59,561

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT A-5

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2010**

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2010**

1. General Budget Policies

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

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

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 reapportioned and honored during the subsequent year.

2. Budget Basis of Accounting

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

3. Budget Amendments

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

Revenues	Original Budget	Increase (Decrease)	Final Budget
General Fund	\$ 5,696,366	\$ (4,050)	\$ 5,692,316
Road and Bridge Special Revenue Fund	6,909,923	(90,000)	6,819,923
Family Services Special Revenue Fund	4,469,197	(32,112)	4,437,085

Expenditures	Original Budget	Increase (Decrease)	Final Budget
General Fund	\$ 5,347,682	\$ (17,300)	\$ 5,330,382
Road and Bridge Special Revenue Fund	6,965,736	(145,813)	6,819,923
Family Services Special Revenue Fund	4,443,952	(48,655)	4,395,297

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

4. Excess of Expenditures Over Appropriations

The following funds had expenditures in excess of appropriations (the legal level of budgetary control) for the year ended December 31, 2010:

<u>Fund</u>	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 5,448,955	\$ 5,330,382	\$ 118,573
Family Services Special Revenue	4,420,761	4,395,297	25,464

The expenditures in excess of budget were funded by unbudgeted revenues and fund balance. The primary reason for the excess expenditures in the General Fund was attributable to the unbudgeted Water Quality Loan program expenditures. The primary reason for the excess expenditures in the Family Services Special Revenue Fund was attributable to various unbudgeted increases in social services programs.

5. Other Postemployment Benefits Funded Status

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

SUPPLEMENTARY INFORMATION

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT B-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Balance January 1	Additions	Deductions	Balance December 31
<u>AGENCY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 130,809	\$ 722,040	\$ 748,786	\$ 104,063
<u>Liabilities</u>				
Due to other governments	\$ 130,809	\$ 722,040	\$ 748,786	\$ 104,063
 <u>MENTAL HEALTH CONSORTIUM</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,183,068	\$ 8,961,466	\$ 8,668,583	\$ 1,475,951
<u>Liabilities</u>				
Due to other governments	\$ 1,183,068	\$ 8,961,466	\$ 8,668,583	\$ 1,475,951
 <u>MORTGAGE REGISTRY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 3,348	\$ 75,289	\$ 67,721	\$ 10,916
<u>Liabilities</u>				
Due to other governments	\$ 3,348	\$ 75,289	\$ 67,721	\$ 10,916

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

***EXHIBIT B-1
(Continued)***

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>STATE DEED TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 25,470	\$ 107,949	\$ 108,405	\$ 25,014
<u>Liabilities</u>				
Due to other governments	\$ 25,470	\$ 107,949	\$ 108,405	\$ 25,014
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 185,195	\$ 16,736,733	\$ 16,643,602	\$ 278,326
<u>Liabilities</u>				
Due to other governments	\$ 185,195	\$ 16,736,733	\$ 16,643,602	\$ 278,326
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,527,890	\$ 26,603,477	\$ 26,237,097	\$ 1,894,270
<u>Liabilities</u>				
Due to other governments	\$ 1,527,890	\$ 26,603,477	\$ 26,237,097	\$ 1,894,270

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT B-2

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Governmental Funds
Shared Revenue	
State	
Highway users tax	\$ 3,692,471
County program aid	471,647
PERA rate reimbursement	17,411
Disparity reduction aid	43,212
Police aid	52,947
Enhanced 911	85,216
Market value credit	403,726
	\$ 4,766,630
Reimbursement for Services	
State	
Minnesota Department of Human Services	\$ 519,888
Payments	
Local	
Payments in lieu of taxes	\$ 94,092
Grants	
State	
Minnesota Department/Board of	
Corrections	\$ 21,025
Public Safety	23,558
Transportation	68,034
Human Services	670,060
Natural Resources	49,005
Veteran Affairs	3,000
Water and Soil Resources	72,710
Peace Officer Standards and Training Board	3,226
Pollution Control Agency	55,950
	\$ 966,568
Federal	
Department of	
Agriculture	\$ 94,453
Commerce	34,483
Transportation	72,130
Health and Human Services	757,307
Homeland Security	113,093
	\$ 1,071,466
Total state and federal grants	\$ 2,038,034
Total Intergovernmental Revenue	\$ 7,418,644

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT B-3

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) Cluster		
State Administrative Matching Grants for SNAP	10.561	\$ 92,317
State Administrative Matching Grants for SNAP - ARRA	10.561	2,136
Total U.S. Department of Agriculture		\$ 94,453
U.S. Department of Commerce		
Passed Through Lyon County		
Public Safety Interoperable Communications Grant Program	11.555	\$ 34,483
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction	20.205	\$ 14,691
Formula Grants for Other Than Urbanized Areas	20.509	33,036
Total U.S. Department of Transportation		\$ 47,727
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	\$ 1,752
Temporary Assistance for Needy Families	93.558	79,516
Child Support Enforcement Cluster		
Child Support Enforcement	93.563	185,533
Child Support Enforcement - ARRA	93.563	14,434
Refugee and Entrant Assistance - State-Administered Programs	93.566	117
Child Care Mandatory and Matching Funds of the Child Care and Development Fund		
Child Welfare Services - State Grants	93.596	4,892
Foster Care - Title IV-E Cluster	93.645	2,023
Foster Care - Title IV-E	93.658	28,328
Foster Care - Title IV-E - ARRA	93.658	142
Social Services Block Grant	93.667	119,573
Chafee Foster Care Independence Program	93.674	10,350
Children's Health Insurance Program	93.767	75
Medical Assistance Program	93.778	310,572
Total U.S. Department of Health and Human Services		\$ 757,307

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**EXHIBIT B-3
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	\$ 4,527
Passed Through Minnesota Department of Public Safety Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	28,820
Emergency Management Performance Grants	97.042	53,738
Passed Through Murray County Homeland Security Grant Program	97.067	<u>26,008</u>
Total U.S. Department of Homeland Security		\$ 113,093
Total Federal Awards		\$ <u>1,047,063</u>

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Cottonwood County under programs of the federal government for the year ended December 31, 2010. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Cottonwood County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Cottonwood County.

3. Summary of Significant Accounting Policies

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

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 1,071,466
Deferred in 2009, recognized as revenue in 2010	
Highway Planning and Construction	<u>(24,403)</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 1,047,063</u>

5. Subrecipients

During 2010, the County did not pass any federal money to subrecipients.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

6. American Recovery and Reinvestment Act

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

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Cottonwood County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Cottonwood County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." None were material weaknesses.
- C. No instances of noncompliance material to the financial statements of Cottonwood County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Cottonwood County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) Cluster	
State Administrative Matching Grants for SNAP	CFDA #10.561
State Administrative Matching Grants for SNAP - ARRA	CFDA #10.561
Child Support Enforcement Cluster	
Child Support Enforcement	CFDA #93.563
Child Support Enforcement - ARRA	CFDA #93.563
Medical Assistance Program	CFDA #93.778

- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Cottonwood County was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

00-3 Annual Adopted Budget and Budget Policy

The County Board adopts a summarized budget at the fund level on an annual basis. Detailed estimated revenue sources by fund and budgeted expenditures by fund, function, and department are available upon request at the Courthouse. However, the Board has not developed and adopted a budget policy for management's administration of the County budget.

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

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

Client's Response:

These procedures already exist, but they are not in written form. The County will develop a written policy.

06-2 Capital Assets Policies and Procedures

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

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

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

Client's Response:

The County will update the current capital asset policy.

06-6 Audit Adjustments

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

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

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

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

Client's Response:

The County will comply.

PREVIOUSLY REPORTED ITEM RESOLVED

Parks Department Internal Controls (09-1)

The County did not have sufficient controls in place over the receipting function in the County's Parks Department.

Resolution

The County has implemented oversight procedures to ensure the integrity and reliability of the Parks Department's receipting function.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS RESOLVED

Safekeeping of Investments (09-2)

The County held investments at an entity that did not meet the criteria of Minn. Stat. § 118A.06.

Resolution

The County's investments are currently held at entities that meet the criteria of Minn. Stat. § 118A.06.

Parks Vending Machine (09-3)

The revenues and expenditures of a County-maintained vending machine, located at one of the County’s parks, were not being accounted for in the County’s accounting system.

Resolution

The vending machine located at one of the County’s parks is now maintained by an outside vender.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-6 County Ditch Fund Deficits

Eleven of the 94 individual ditch systems had deficit fund balances as of December 31, 2010, totaling \$396,947, which is a decrease from the \$399,632 deficit reported in the prior year. The deficits indicate that assessments are not sufficient to cover bond principal and interest payments.

The County is authorized by Minn. Stat. § 103E.735, subd. 1, to establish a fund balance to be used for repairs for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$100,000, 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:

The County will continue its effort to eliminate deficit ditch balances.

09-4 Road and Bridge Deficit Fund Balance

As of December 31, 2010, the Road and Bridge Special Revenue Fund had a deficit fund balance of \$316,225, which is an increase from the \$173,625 deficit reported in the prior year. A fund with a deficit fund balance is, in effect, borrowing from the funds with positive fund balances.

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

Client's Response:

The County is monitoring this fund balance. Immediate revenue solutions have already been implemented. The County transferred approximately \$205,000 from the revenue fund, and \$125,000 was transferred from the current Windtower Tax revenue. Expenditure solutions in the fund are also being considered.

C. OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board's (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is effective for Cottonwood County for the year ending December 31, 2011. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and to clarify existing governmental fund type definitions.

Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance are reserved, unreserved - designated, and unreserved - undesignated. Statement 54 replaces these components with nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not in spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).
- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.
- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - spendable amounts not contained in the other classifications.

The County should begin the process for implementing the new fund balance classifications. A key step in successfully implementing the new fund balance requirements is to plan ahead. The County can start with the following steps:

- review the requirements of GASB Statement 54;
- review current fund balances and compare to the new classifications;
- reclassify January 1, 2011, fund balance using the new classifications;
- review/update/prepare a comprehensive fund balance policy;
- prepare appropriate Board resolutions to commit fund balance; and
- if the Board of County Commissioners intends to delegate authority to assign fund balance, prepare the resolutions delegating that authority.

Governmental Fund Type Definitions

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in the new standard. The new definition for a special revenue fund could have significant impact on the County's current fund classifications.

GASB Statement 54 provides a new and clearer description of when it is appropriate to account for an activity using a special revenue fund. Special revenue funds are used to report specific revenue sources restricted or committed to specified purposes other than debt service and capital projects, where the restricted or committed revenue sources comprise a substantial portion of the fund's resources, and are expected to continue to do so in the future. The standard does not define substantial portion; however, most recommendations are generally that the restricted or committed revenues should comprise at least 35 to 50 percent of total fund revenues. Under this definition, it is possible that some current special revenue funds will no longer meet the requirements for special revenue fund treatment. The County's management should review the County's special revenue funds to ensure these funds continue to warrant treatment as special revenue funds.

The County's management should perform the following steps prior to December 31, 2011:

- prepare a list of the County's special revenue funds;
- determine the sources of revenues for each of those funds;
- identify whether any of those revenues are restricted or committed;
- determine if these restricted or committed revenues represent a substantial portion of the fund's revenues and are expected to continue to be a substantial source of revenues;
 - if yes, the fund may continue to be classified as a special revenue fund;
 - if not, determine whether the County will combine that fund with the general fund or with a similar purpose special revenue fund that meets the new definition;
- code revenues in the general ledger by source constraints--restricted, committed, assigned, or unassigned; and
- determine if there needs to be a restatement of beginning fund balances.

Additional implementation steps could include: informing any component units that they also will need to meet the requirements; deciding on how fund balance will be presented in the financials, such as detailed vs. aggregate methods; and developing the potential note disclosures. Additional guidance on GASB Statement 54 can be found on the Office of the State Auditor's website at: http://www.auditor.state.mn.us/other/Statements/fundbalances_postGASB54_1012_statement.pdf.



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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, 2010, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 27, 2011. 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.

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

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

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

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

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

Cottonwood County's written responses to the internal control and management practices findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 27, 2011

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

Board of County Commissioners
Cottonwood County

Compliance

We have audited Cottonwood County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. Cottonwood County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Cottonwood County complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

Management of Cottonwood County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 27, 2011