

State of Minnesota



Office of the State Auditor

Julie Blaha
State Auditor

Cottonwood County Windom, Minnesota

Year Ended December 31, 2021

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 100 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 Minnesota’s local 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

Year Ended December 31, 2021



Office of the State Auditor

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

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WINDOM, MINNESOTA**

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WINDOM, MINNESOTA**

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INTRODUCTORY SECTION

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

ORGANIZATION
2021

Office	Name	Term Expires
Commissioners		
1st District	Larry Anderson	December 2022
2nd District	Kevin Stevens	December 2024
3rd District	Donna Gravley ²	December 2022
4th District	Norman Holmen	December 2022
5th District	Tom Appel ¹	December 2022
Officials		
Elected		
Attorney	Nicholas Anderson	December 2022
Auditor/Treasurer	Donna Torkelson	December 2022
County Recorder	Kathleen Kretsch	December 2022
Sheriff	Jason Purrington	December 2022
Appointed		
Assessor	Gale Bondhus	December 31, 2024
Coordinator	Kelly Thongvivong	Indefinite
Highway Engineer	Nicholas Klisch	May 2022
Veterans Service Officer	Todd Dibble	Indefinite
Emergency Management Director	Paul Johnson	Indefinite

¹Chair 2021

²Chair 2022

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Cottonwood County
Windom, Minnesota

Report on the Audit of the Financial Statements

Opinions

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, Minnesota, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

In our opinion, the accompanying 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, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the County, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter – Restructuring of Funds

As discussed in Note 1.D.16 to the financial statements, in 2021, the County reclassified the long-term capital outlay from the General Fund to the Building Capital Projects Fund. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the County's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance, and therefore, is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit;
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, no such opinion is expressed;
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements; and
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the County's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis; Budgetary Comparison Schedules for the General Fund and the Road and Bridge Special Revenue Fund; Schedule of Changes in Total OPEB Liability and Related Ratios – Other Postemployment Benefits; PERA retirement plan schedules; and Notes to the Required Supplementary Information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Cottonwood County’s basic financial statements. The Budgetary Comparison Schedule for the Building Capital Projects Fund; combining fiduciary funds financial statements; Schedule of Intergovernmental Revenue; and Schedule of Expenditures of Federal Awards and related notes, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information as identified above is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2022, on our consideration of the County’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant

agreements and other matters. The purpose of that report is solely 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 effectiveness of the County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

August 19, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021
(Unaudited)**

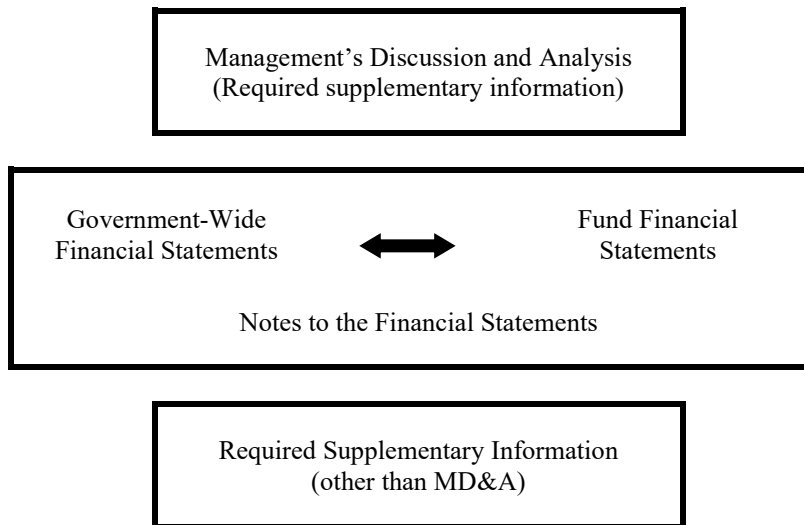
Cottonwood County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2021. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is \$80,431,094, of which \$65,754,478 is the investment in capital assets, leaving \$8,681,590 of the governmental activities' net position restricted for specific uses and \$5,995,026 as unrestricted.
- Business-type activities have a total net position of \$745,991, of which \$740,431 is the net investment in capital assets, leaving \$5,560 as unrestricted.
- Cottonwood County's net position increased by \$8,896,079 for the year ended December 31, 2021. This increase is comprised of an increase of \$9,712,914 in the governmental activities' net position and a decrease of \$816,835 in the business-type activities' net position.
- The net cost of governmental activities was \$4,236,275 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$13,949,189.
- Governmental funds' fund balances increased by \$3,209,880.

OVERVIEW OF THE FINANCIAL STATEMENTS

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



There are two government-wide financial statements. The Statement of Net Position and the Statement of Activities (Exhibits 1 and 2) 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 Exhibit 3. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

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

Our analysis of the County as a whole begins on Exhibit 1. The Statement of Net Position and the Statement of Activities report information about the County as a whole and about its activities in a way that helps the reader determine whether the County's financial condition has improved or declined as a result of the year's activities. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the full accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

- Governmental activities—Most of the County’s basic services are reported here, including general government, public safety, highways and streets, sanitation, health and human services, 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 Exhibit 3. 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 three kinds of funds—governmental, proprietary, and fiduciary—use different accounting methods.

- Governmental funds—Most of the County’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the County’s general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County’s programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are described in a reconciliation following each governmental fund financial statement.
- Proprietary funds—When the County charges customers for the services it provides—whether to outside customers or to other units of the County—these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the County’s enterprise fund presents the same information as the business-type activities in the government-wide statements but provides more detail and additional information, such as cash flows.
- Fiduciary funds—Fiduciary funds are used to account for assets held for the benefit of parties outside of the County. Fiduciary funds are not reflected in the government-wide statements because the resources of these funds are not available to support the County’s own programs or activities. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All fiduciary funds are presented on separate statements on Exhibits 10, 11, C-1, and C-2 of this report.

Other Information

In addition to the basic financial statements and notes, this report also presents certain required supplementary information concerning Cottonwood County's budgetary comparison schedules for the General Fund and the Road and Bridge Special Revenue Fund (Exhibits A-1 to A-2), changes in its obligation to provide other postemployment benefits to its employees (Exhibit A-3), and schedules of proportionate share of net pension liability and schedules of contributions (Exhibits A-4 to A-9).

THE COUNTY AS A WHOLE

The County's combined net position is \$81,177,085. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the County's governmental and business-type activities.

Table 1
Net Position

	2021		Total	2020
	Governmental Activities	Business-Type Activities		
Assets				
Current and other assets	\$ 22,238,452	\$ 1,353,014	\$ 23,591,466	\$ 17,860,972
Capital assets	65,754,478	1,625,227	67,379,705	63,076,956
Total Assets	\$ 87,992,930	\$ 2,978,241	\$ 90,971,171	\$ 80,937,928
Deferred Outflows of Resources	\$ 2,686,394	\$ 109,863	\$ 2,796,257	\$ 831,775
Liabilities				
Long-term liabilities	\$ 4,907,365	\$ 2,174,508	\$ 7,081,873	\$ 7,617,671
Other liabilities	1,786,375	54,177	1,840,552	818,175
Total Liabilities	\$ 6,693,740	\$ 2,228,685	\$ 8,922,425	\$ 8,435,846
Deferred Inflows of Resources	\$ 3,554,490	\$ 113,428	\$ 3,667,918	\$ 1,052,851
Net Position				
Net investment in capital assets	\$ 65,754,478	\$ 740,431	\$ 66,494,909	\$ 62,096,885
Restricted	8,681,590	-	8,681,590	3,659,284
Unrestricted	5,995,026	5,560	6,000,586	6,524,837
Total Net Position	\$ 80,431,094	\$ 745,991	\$ 81,177,085	\$ 72,281,006

Net position of the County's governmental activities was \$80,431,094. Unrestricted net position—the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements—was \$5,995,026 at the end of the year. The net position of business-type activities was \$745,991.

Table 2
Changes in Net Position
(in Thousands)

	2021			2020
	Governmental Activities	Business-Type Activities	Total	
Revenues				
Program revenues				
Fees, fines, and charges	\$ 1,929	\$ 791	\$ 2,720	\$ 2,415
Operating grants and contributions	6,706	-	6,706	6,590
Capital grants and contributions	4,358	-	4,358	772
General revenues				
Property taxes	11,140	1	11,141	10,808
Other taxes	751	-	751	900
Grants, gifts, and miscellaneous	2,077	-	2,077	3,238
Total Revenues	\$ 26,961	\$ 792	\$ 27,753	\$ 24,723
Expenses				
General government	\$ 3,994	\$ -	\$ 3,994	\$ 4,828
Public safety	2,814	-	2,814	2,945
Highways and streets	5,223	-	5,223	6,411
Sanitation	390	-	390	339
Health and human services	2,868	-	2,868	2,868
Culture and recreation	392	-	392	386
Conservation of natural resources	1,279	-	1,279	1,117
Economic development	257	-	257	-
Interest	12	-	12	6
Landfill	-	1,628	1,628	882
Total Expenses	\$ 17,229	\$ 1,628	\$ 18,857	\$ 19,782
Increase (decrease) before transfers	\$ 9,732	\$ (836)	\$ 8,896	\$ 4,941
Transfers	(19)	19	-	-
Increase (decrease) in net position	\$ 9,713	\$ (817)	\$ 8,896	\$ 4,941
Net Position – January 1, as restated	70,718	1,563	72,281	* 67,340
Net Position – December 31	<u>\$ 80,431</u>	<u>\$ 746</u>	<u>\$ 81,177</u>	<u>\$ 72,281</u>

*Amount includes a change in accounting principles.

The County's activities increased net position by 12.31 percent (\$81,177,085 for 2021 compared to \$72,281,006 for 2020).

TOTAL COUNTY REVENUE

Governmental Activities

Revenues for the County's governmental activities (see Table 2) were \$26,961,137, while total expenses were \$17,229,429 and transfers out were \$18,794. This reflects a \$9,712,914 increase in net position for the year ended December 31, 2021.

Business-Type Activities

Revenues of the County's business-type activities (see Table 2) were \$792,351, transfers in were \$18,794, and expenses were \$1,627,980. This reflects a \$816,835 decrease in net position for the year ending December 31, 2021.

Governmental Activities' Expenses

The cost of the County's governmental activities this year was \$17,229,429. However, as shown in the Statement of Activities, the amount that taxpayers ultimately financed for these activities through County taxes and other general revenue was \$13,949,189 because some of the cost was paid by those who directly benefited from the programs (\$1,928,841) or by other governments and organizations that subsidized certain programs with grants and contributions (\$11,064,313).

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)

	2021	
	Total Cost of Services	Net Cost of Services
Highways and streets	\$ 5,223	\$ 4,842
General government	3,994	(3,660)
Public safety	2,814	(2,438)
Health and human services	2,868	(2,482)
Conservation of natural resources	1,279	(337)
All others	1,051	(161)
Totals	<u>\$ 17,229</u>	<u>\$ (4,236)</u>

THE COUNTY'S FUNDS

As the County completed the year, its governmental funds (as presented in the Balance Sheet) reported a combined fund balance of \$16,192,596, which is above last year's total of \$12,982,716 (restated). The governmental funds' change in fund balance (an increase of \$3,209,880 for 2021) represents a 24.72 percent increase in governmental fund balances.

The General Fund showed a decrease in fund balance of \$370,393, after restatement. The overall decrease in fund balance resulted from transfer of funds to the Building Capital Projects Fund in 2021.

The Road and Bridge Special Revenue Fund's fund balance increased \$1,510,461 in 2021. The increase is a result of funds expended in previous years and reimbursed with State Aid in current year, planned capital outlay for building needs that was not expended but was levied in 2021, and funding received in 2021 for a construction project that will be expended in 2022.

In 2021, the Ditch Special Revenue Fund showed a decrease in fund balance of \$487,304. This is due to expenditures on a judicial ditch (JD 3 M&E) and a joint ditch (JD 24CB).

The Building Capital Projects Fund had an increase in fund balance of \$2,557,116 in 2021, after restatement. The increase is due to long-term capital outlay projects that were not expended in 2021 but were included in the 2021 levy. In addition, the increase is due to expenditures for the renovation or tuckpointing of the Courthouse that was included in the budget, but not all was expended. The remainder of the tuckpointing is expected to be completed in the fall of 2022.

General Fund Budgetary Highlights

No budget amendments were made for 2021.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2021, the County had \$67,379,705 invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment. (See Table 4) This amount represents a net increase (including additions and deductions) of \$4,302,749, or 6.8 percent, over last year.

Table 4
Changes in Capital Assets During 2021

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 452,310	\$ -	\$ -	\$ 452,310
Right-of-way	796,481	61,978	-	858,459
Construction in progress	3,948,501	9,953	3,948,501	9,953
Total capital assets not depreciated	\$ 5,197,292	\$ 71,931	\$ 3,948,501	\$ 1,320,722
Capital assets depreciated				
Buildings	\$ 6,379,349	\$ -	\$ -	\$ 6,379,349
Machinery and equipment	7,342,131	687,739	862,695	7,167,175
Infrastructure	76,320,095	10,176,435	-	86,496,530
Total capital assets depreciated	\$ 90,041,575	\$ 10,864,174	\$ 862,695	\$ 100,043,054
Less: accumulated depreciation for				
Buildings	\$ 3,168,259	\$ 137,517	\$ -	\$ 3,305,776
Machinery and equipment	4,666,970	507,183	754,200	4,419,953
Infrastructure	26,192,251	1,691,318	-	27,883,569
Total accumulated depreciation	\$ 34,027,480	\$ 2,336,018	\$ 754,200	\$ 35,609,298
Total capital assets depreciated, net	\$ 56,014,095	\$ 8,528,156	\$ 108,495	\$ 64,433,756
Governmental Activities Capital Assets, Net	\$ 61,211,387	\$ 8,600,087	\$ 4,056,996	\$ 65,754,478

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 249,586	\$ -	\$ -	\$ 249,586
Capital assets depreciated				
Buildings	\$ 52,731	\$ -	\$ -	\$ 52,731
Land improvements	3,511,154	-	-	3,511,154
Machinery and equipment	1,000,532	5,895	15,453	990,974
Total capital assets depreciated	\$ 4,564,417	\$ 5,895	\$ 15,453	\$ 4,554,859
Less: accumulated depreciation for				
Buildings	\$ 29,883	\$ 968	\$ -	\$ 30,851
Land improvements	2,309,496	149,561	-	2,459,057
Machinery and equipment	609,055	95,708	15,453	689,310
Total accumulated depreciation	\$ 2,948,434	\$ 246,237	\$ 15,453	\$ 3,179,218
Total capital assets depreciated, net	\$ 1,615,983	\$ (240,342)	\$ -	\$ 1,375,641
Business-Type Activities Capital Assets, Net	\$ 1,865,569	\$ (240,342)	\$ -	\$ 1,625,227

(Unaudited)

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Debt

At the end of the current fiscal year, the County had total outstanding debt of \$1,645,236 versus \$1,421,951 last year—an increase of 15.7 percent—as shown in Table 5.

Table 5
Changes in Outstanding Debt During 2021

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Loans payable	<u>\$ 1,421,951</u>	<u>\$ 388,519</u>	<u>\$ 165,234</u>	<u>\$ 1,645,236</u>	<u>\$ 160,838</u>

The County's general obligation bond rating is an AA-. This rating is assigned by national rating agencies. The state limits the amount of net debt that counties can issue to three percent of the market value of all taxable property (\$3,328,052,768) in the County. The County's outstanding net debt (\$1,645,236) is significantly below this state-imposed limit (\$99,841,583).

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 2022 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 governmental fund expenditures for 2022 are budgeted to increase slightly by 0.6 percent from 2021.
- Property taxes levied have increased 3.75 percent for 2022.

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, Donna Torkelson, Cottonwood County Courthouse, 900 – 3rd Avenue, Windom, Minnesota 56101; (507) 831-1342.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2021**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Cash and pooled investments	\$ 16,334,102	\$ 219,717	\$ 16,553,819
Receivables	4,327,782	52,119	4,379,901
Internal balances	912,000	(912,000)	-
Inventories	612,754	-	612,754
Restricted assets			
Cash and pooled investments	-	1,993,178	1,993,178
Capital assets			
Non-depreciable	1,320,722	249,586	1,570,308
Depreciable – net of accumulated depreciation	64,433,756	1,375,641	65,809,397
Net pension asset	51,814	-	51,814
Total Assets	<u>\$ 87,992,930</u>	<u>\$ 2,978,241</u>	<u>\$ 90,971,171</u>
<u>Deferred Outflows of Resources</u>			
Deferred other postemployment benefits outflows	\$ 83,870	\$ 2,541	\$ 86,411
Deferred pension outflows	2,602,524	107,322	2,709,846
Total Deferred Outflows of Resources	<u>\$ 2,686,394</u>	<u>\$ 109,863</u>	<u>\$ 2,796,257</u>
<u>Liabilities</u>			
Accounts payable	\$ 393,102	\$ 45,800	\$ 438,902
Salaries payable	196,155	8,377	204,532
Contracts payable	53,966	-	53,966
Unearned revenue	1,143,152	-	1,143,152
Long-term liabilities			
Due within one year	224,201	2,969	227,170
Due in more than one year	2,074,263	2,043,869	4,118,132
Other postemployment benefits liability	267,278	8,097	275,375
Net pension liability	2,341,623	119,573	2,461,196
Total Liabilities	<u>\$ 6,693,740</u>	<u>\$ 2,228,685</u>	<u>\$ 8,922,425</u>
<u>Deferred Inflows of Resources</u>			
Deferred other postemployment benefits inflows	\$ 78,681	\$ 3,047	\$ 81,728
Deferred pension inflows	3,475,809	110,381	3,586,190
Total Deferred Inflows of Resources	<u>\$ 3,554,490</u>	<u>\$ 113,428</u>	<u>\$ 3,667,918</u>

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

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

***EXHIBIT 1
(Continued)***

**STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2021**

	Governmental Activities	Business-Type Activities	Total
<u>Net Position</u>			
Net investment in capital assets	\$ 65,754,478	\$ 740,431	\$ 66,494,909
Restricted for			
General government	282,624	-	282,624
Public safety	302,980	-	302,980
Highways and streets	2,088,700	-	2,088,700
Conservation of natural resources	1,798,736	-	1,798,736
Economic development	102,070	-	102,070
Opioid remediation activities	386,095	-	386,095
Capital projects	3,720,385	-	3,720,385
Unrestricted	5,995,026	5,560	6,000,586
Total Net Position	\$ 80,431,094	\$ 745,991	\$ 81,177,085

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>
Governmental activities		
General government	\$ 3,993,709	\$ 325,915
Public safety	2,814,550	85,214
Highways and streets	5,223,115	356,151
Sanitation	390,114	354,287
Health and human services	2,867,610	-
Culture and recreation	391,799	92,746
Conservation of natural resources	1,278,833	714,528
Economic development	257,000	-
Interest	12,699	-
Total governmental activities	\$ 17,229,429	\$ 1,928,841
Business-type activities		
Landfill	1,627,980	791,170
Total	\$ 18,857,409	\$ 2,720,011

General Revenues
Property taxes
Gravel taxes
Mortgage registry and deed tax
Wheelage tax
Windpower tax
Grants and contributions not restricted
to specific programs
Payments in lieu of tax
Investment income
Miscellaneous
Gain on sale of capital assets

Transfers

Total general revenues and transfers

Change in net position

Net Position – Beginning

Net Position – Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Position		
Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
\$ 7,500	\$ -	\$ (3,660,294)	\$ -	\$ (3,660,294)
291,042	-	(2,438,294)	-	(2,438,294)
5,351,350	4,357,936	4,842,322	-	4,842,322
71,066	-	35,239	-	35,239
386,095	-	(2,481,515)	-	(2,481,515)
115,518	-	(183,535)	-	(183,535)
227,556	-	(336,749)	-	(336,749)
256,250	-	(750)	-	(750)
-	-	(12,699)	-	(12,699)
\$ 6,706,377	\$ 4,357,936	\$ (4,236,275)	\$ -	\$ (4,236,275)
-	-	-	(836,810)	(836,810)
\$ 6,706,377	\$ 4,357,936	\$ (4,236,275)	\$ (836,810)	\$ (5,073,085)
		\$ 11,140,048	\$ 1,181	\$ 11,141,229
		40,946	-	40,946
		13,009	-	13,009
		138,400	-	138,400
		558,193	-	558,193
		958,001	-	958,001
		387,771	-	387,771
		116,354	-	116,354
		614,256	-	614,256
		1,005	-	1,005
		(18,794)	18,794	-
		\$ 13,949,189	\$ 19,975	\$ 13,969,164
		\$ 9,712,914	\$ (816,835)	\$ 8,896,079
		70,718,180	1,562,826	72,281,006
		\$ 80,431,094	\$ 745,991	\$ 81,177,085

FUND FINANCIAL STATEMENTS

GOVERNMENTAL FUNDS

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2021**

	<u>General</u>	<u>Road and Bridge</u>	<u>Ditch</u>	<u>Building</u>	<u>Total</u>
<u>Assets</u>					
Cash and pooled investments	\$ 7,475,922	\$ 3,556,072	\$ 727,007	\$ 4,575,101	\$ 16,334,102
Taxes receivable – delinquent	61,631	-	-	-	61,631
Special assessments receivable					
Delinquent	27,701	-	46	-	27,747
Noncurrent	1,536,492	-	-	-	1,536,492
Accounts receivable	386,095	-	19,135	-	405,230
Loans receivable	100,980	-	-	-	100,980
Due from other governments	-	2,195,702	-	-	2,195,702
Inventories	-	612,754	-	-	612,754
Advance to other funds	1,835,523	-	-	-	1,835,523
Total Assets	\$ 11,424,344	\$ 6,364,528	\$ 746,188	\$ 4,575,101	\$ 23,110,161
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 323,645	\$ 34,697	\$ 22,619	\$ 12,141	\$ 393,102
Salaries payable	137,876	58,279	-	-	196,155
Contracts payable	-	53,966	-	-	53,966
Unearned revenue	1,132,340	-	-	10,812	1,143,152
Advance from other funds	-	-	923,523	-	923,523
Total Liabilities	\$ 1,593,861	\$ 146,942	\$ 946,142	\$ 22,953	\$ 2,709,898
Deferred Inflows of Resources					
Unavailable revenue	\$ 2,011,919	\$ 2,195,702	\$ 46	\$ -	\$ 4,207,667

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2021**

	<u>General</u>	<u>Road and Bridge</u>	<u>Ditch</u>	<u>Building</u>	<u>Total</u>
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>					
(Continued)					
Fund Balances					
Nonspendable					
Long-term loans receivable	\$ 100,980	\$ -	\$ -	\$ -	\$ 100,980
Advances to other funds	1,835,523	-	-	-	1,835,523
Inventories	-	612,754	-	-	612,754
Restricted for					
Law library	49,070	-	-	-	49,070
Recorder's technology fund	110,014	-	-	-	110,014
Recorder's compliance fund	-	-	-	123,540	123,540
Enhanced 911	124,559	-	-	-	124,559
Permit to carry administration	130,996	-	-	-	130,996
Sheriff forfeitures	-	-	-	47,425	47,425
Septic/sewer loan repayments	474,369	-	-	-	474,369
Land restoration	227,361	-	-	-	227,361
Aquatic invasive species program	153,235	-	-	-	153,235
Buffer administration	368,195	-	-	-	368,195
Low-interest small business loans	102,070	-	-	-	102,070
Highway construction	-	217,216	-	-	217,216
Ditch maintenance and repairs	-	-	733,469	-	733,469
County buildings	-	-	-	3,720,385	3,720,385
Assigned for					
Road and bridge	-	3,191,914	-	-	3,191,914
Capital outlay	-	-	-	660,798	660,798
Unassigned	4,142,192	-	(933,469)	-	3,208,723
Total Fund Balances	\$ 7,818,564	\$ 4,021,884	\$ (200,000)	\$ 4,552,148	\$ 16,192,596
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 11,424,344	\$ 6,364,528	\$ 746,188	\$ 4,575,101	\$ 23,110,161

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION—GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2021**

Fund balance – total governmental funds (Exhibit 3)		\$ 16,192,596
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		65,754,478
Net pension assets are not financial resources and, therefore, are not reported in the governmental funds.		51,814
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources – unavailable revenue in the governmental funds.		4,207,667
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Loans payable	\$ (1,645,236)	
Compensated absences	(653,228)	
Other postemployment benefits liability	(267,278)	
Net pension liability	<u>(2,341,623)</u>	(4,907,365)
Deferred outflows of resources and deferred inflows of resources resulting from changes in the components of the other postemployment benefits liability are not reported in the governmental funds.		
Deferred other postemployment benefits outflows		83,870
Deferred other postemployment benefits inflows		(78,681)
Deferred outflows of resources and deferred inflows of resources resulting from changes in the components of the net pension liability are not reported in the governmental funds.		
Deferred pension outflows		2,602,524
Deferred pension inflows		<u>(3,475,809)</u>
Net Position of Governmental Activities (Exhibit 1)		<u>\$ 80,431,094</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>General</u>	<u>Road and Bridge</u>	<u>Ditch</u>	<u>Building</u>	<u>Total</u>
Revenues					
Taxes	\$ 8,144,443	\$ 2,378,757	\$ -	\$ 1,430,255	\$ 11,953,455
Special assessments	247,179	-	189,662	-	436,841
Licenses and permits	28,566	17,200	-	-	45,766
Intergovernmental	2,317,007	8,742,982	-	1,469	11,061,458
Charges for services	504,538	139,048	-	48,444	692,030
Fines and forfeits	12,598	-	-	-	12,598
Investment earnings	116,354	-	-	-	116,354
Miscellaneous	790,631	199,903	4,237	128,572	1,123,343
Total Revenues	\$ 12,161,316	\$ 11,477,890	\$ 193,899	\$ 1,608,740	\$ 25,441,845
Expenditures					
Current					
General government	\$ 3,981,324	\$ -	\$ -	\$ 11,460	\$ 3,992,784
Public safety	3,059,080	-	-	122,643	3,181,723
Highways and streets	-	9,811,887	-	-	9,811,887
Sanitation	419,668	-	-	-	419,668
Health and human services	15,966	-	-	-	15,966
Culture and recreation	365,212	-	-	23,793	389,005
Conservation of natural resources	598,905	-	673,203	-	1,272,108
Economic development	257,000	-	-	-	257,000
Capital outlay					
General government	-	-	-	76,228	76,228
Intergovernmental					
Highways and streets	-	434,910	-	-	434,910
Health and human services	2,851,644	-	-	-	2,851,644
Debt service					
Principal	165,234	-	-	-	165,234
Interest	4,901	-	8,000	-	12,901
Total Expenditures	\$ 11,718,934	\$ 10,246,797	\$ 681,203	\$ 234,124	\$ 22,881,058
Excess of Revenues Over (Under)					
Expenditures	\$ 442,382	\$ 1,231,093	\$ (487,304)	\$ 1,374,616	\$ 2,560,787

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**EXHIBIT 5
(Continued)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>General</u>	<u>Road and Bridge</u>	<u>Ditch</u>	<u>Building</u>	<u>Total</u>
Other Financing Sources (Uses)					
Transfers in	\$ -	\$ -	\$ -	\$ 1,182,500	\$ 1,182,500
Transfers out	(1,201,294)	-	-	-	(1,201,294)
Loans issued	388,519	-	-	-	388,519
Proceeds from sale of capital assets	-	1,005	-	-	1,005
Total Other Financing Sources (Uses)	\$ (812,775)	\$ 1,005	\$ -	\$ 1,182,500	\$ 370,730
Net Change in Fund Balance	\$ (370,393)	\$ 1,232,098	\$ (487,304)	\$ 2,557,116	\$ 2,931,517
Fund Balance – January 1, as previously reported	\$ 9,999,788	\$ 2,511,423	\$ 287,304	\$ 184,201	\$ 12,982,716
Restatement (Note 1.D.16)	(1,810,831)	-	-	1,810,831	-
Fund Balance – January 1, as restated	\$ 8,188,957	\$ 2,511,423	\$ 287,304	\$ 1,995,032	\$ 12,982,716
Increase (decrease) in inventories	-	278,363	-	-	278,363
Fund Balance – December 31	\$ 7,818,564	\$ 4,021,884	\$ (200,000)	\$ 4,552,148	\$ 16,192,596

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES—GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021**

Net change in fund balance – total governmental funds (Exhibit 5) \$ 2,931,517

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

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

Unavailable revenue – December 31	\$ 4,207,667	
Unavailable revenue – January 1	<u>(2,655,297)</u>	1,552,370

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 increases financial resources. Therefore, the change in net position differs from the change in fund balance by the net book value of the assets disposed.

Expenditures for general capital assets and infrastructure	\$ 6,987,604	
Net book value of assets disposed	(108,495)	
Current year depreciation	<u>(2,336,018)</u>	4,543,091

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 position.

Proceeds of new debt – loans issued	\$ (388,519)	
Repayment of debt principal – loan payments	<u>165,234</u>	(223,285)

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**EXHIBIT 6
(Continued)**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES—GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021**

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 the governmental funds.

Change in inventories	\$	278,363	
Change in deferred other postemployment benefits outflows		(8,662)	
Change in deferred pension outflows		1,889,464	
Change in accrued interest payable		202	
Change in compensated absences		56,955	
Change in other postemployment benefits liability		37,672	
Change in net pension asset		51,814	
Change in net pension liability		1,112,740	
Change in deferred other postemployment benefits inflows		(58,970)	
Change in deferred pension inflows		(2,450,357)	
		909,221	
Change in Net Position of Governmental Activities (Exhibit 2)		\$ 9,712,914	

PROPRIETARY FUND

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FUND NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2021**

	<u>Landfill Enterprise Fund</u>
<u>Assets</u>	
Current assets	
Cash and pooled investments	\$ 219,717
Accounts receivable	52,119
Restricted assets	
Cash and pooled investments	<u>1,993,178</u>
Total current assets	<u>\$ 2,265,014</u>
Noncurrent assets	
Capital assets	
Nondepreciable	\$ 249,586
Depreciable – net	<u>1,375,641</u>
Total noncurrent assets	<u>\$ 1,625,227</u>
Total Assets	<u>\$ 3,890,241</u>
<u>Deferred Outflows of Resources</u>	
Deferred other postemployment benefits outflows	\$ 2,541
Deferred pension outflows	<u>107,322</u>
Total Deferred Outflows of Resources	<u>\$ 109,863</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**EXHIBIT 7
(Continued)**

**STATEMENT OF FUND NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2021**

	Landfill Enterprise Fund
<u>Liabilities</u>	
Current liabilities	
Accounts payable	\$ 45,800
Salaries payable	8,377
Compensated absences payable – current	2,969
Total current liabilities	\$ 57,146
Noncurrent liabilities	
Advances from other funds	\$ 912,000
Compensated absences payable – long-term	27,638
Estimated liability for landfill closure/postclosure care	2,016,231
Other postemployment benefits liability	8,097
Net pension liability	119,573
Total noncurrent liabilities	\$ 3,083,539
Total Liabilities	\$ 3,140,685
<u>Deferred Inflows of Resources</u>	
Deferred other postemployment benefits inflows	\$ 3,047
Deferred pension inflows	110,381
Total Deferred Inflows of Resources	\$ 113,428
<u>Net Position</u>	
Net investment in capital assets	\$ 740,431
Unrestricted	5,560
Total Net Position	\$ 745,991

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Landfill Enterprise Fund</u>
Operating Revenues	
Charges for services	\$ 773,938
Licenses and permits	110
Miscellaneous	<u>18,303</u>
Total Operating Revenues	<u>\$ 792,351</u>
Operating Expenses	
Personal services	\$ 269,515
Professional services	175,508
Other services and charges	449,317
Utilities	8,135
Depreciation	246,237
Landfill closure and postclosure care costs	<u>479,268</u>
Total Operating Expenses	<u>\$ 1,627,980</u>
Operating Income (Loss) Before Transfers	\$ (835,629)
Transfers in	<u>18,794</u>
Change in Net Position	\$ (816,835)
Net Position – January 1	<u>1,562,826</u>
Net Position – December 31	<u><u>\$ 745,991</u></u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2021
Increase (Decrease) in Cash and Cash Equivalents**

	Landfill Enterprise Fund
Cash Flows from Operating Activities	
Receipts from customers and users	\$ 796,089
Payments to suppliers	(617,000)
Payments to employees	(275,719)
	(96,630)
Net cash provided by (used in) operating activities	\$ (96,630)
Cash Flows from Noncapital Financing Activities	
Transfers in	\$ 18,794
	18,794
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	\$ (185,966)
Advance from other funds	112,000
	(73,966)
Net cash provided by (used in) capital and related financing activities	\$ (73,966)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (151,802)
Cash and Cash Equivalents – January 1	2,364,697
Cash and Cash Equivalents – December 31	\$ 2,212,895
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position – Exhibit 7	
Cash and pooled investments	\$ 219,717
Restricted cash and pooled investments	1,993,178
	2,212,895
Total Cash and Cash Equivalents – December 31	\$ 2,212,895

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2021
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)	\$ (835,629)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 246,237
Landfill closure and postclosure care costs	479,268
(Increase) decrease in accounts receivable	3,738
(Increase) decrease in deferred other postemployment benefits outflows	361
(Increase) decrease in deferred pension outflows	(84,041)
Increase (decrease) in accounts payable	15,960
Increase (decrease) in salaries payable	2,720
Increase (decrease) in compensated absences payable	(5,096)
Increase (decrease) in other postemployment benefits liability	(1,570)
Increase (decrease) in net pension liability	(24,318)
Increase (decrease) in deferred other postemployment benefits inflows	2,457
Increase (decrease) in deferred pension inflows	103,283
Total adjustments	\$ 738,999
Net Cash Provided by (Used in) Operating Activities	\$ (96,630)

FIDUCIARY FUNDS

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2021**

	<u>Custodial Funds</u>
<u>Assets</u>	
Cash and pooled investments	\$ 467,406
Taxes receivable for other governments	192,070
Special assessments receivable for other governments	<u>59,615</u>
Total Assets	\$ 719,091
<u>Liabilities</u>	
Due to others	<u>4,603</u>
<u>Net Position</u>	
Restricted for individuals, organizations, and other governments	<u><u>\$ 714,488</u></u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 11

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021**

<u>Additions</u>	<u>Custodial Funds</u>
Contributions from individuals	\$ 55,269
Property tax collections for other governments	13,524,513
Fees collected for state	<u>1,068,101</u>
Total Additions	\$ 14,647,883
<u>Deductions</u>	
Payments of property tax to other governments	\$ 13,043,818
Payments to state	2,030,633
Payments to other individuals/entities	<u>216,580</u>
Total Deductions	\$ 15,291,031
Change in Net Position	\$ (643,148)
Net Position – January 1	<u>1,357,636</u>
Net Position – December 31	\$ 714,488

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2021

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as of and for the year ended December 31, 2021. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

The County participates in joint ventures described in Note 5.B. The County also participates in jointly-governed organizations described in Note 5.C.

B. Basic Financial Statements

1. Government-Wide Statements

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

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

2. Fund Financial Statements

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

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

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

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

The 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 properties.

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

The County reports the following major enterprise fund:

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

Additionally, the County reports the following fund type:

Custodial funds are safekeeping in nature. These funds account for monies the County holds for others in a fiduciary 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 full 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.

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 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. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

1. Cash and Cash Equivalents

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position 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. Investments are reported at their fair value at December 31, 2021. A market approach is used to value all investments. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds may receive investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2021 were \$116,354.

3. Receivables and Payables

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

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

No allowance for accounts receivable and uncollectible taxes/special assessments has been provided because such amounts are not expected to be material.

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.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Special Assessments Receivable

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

5. Inventories

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

6. Restricted Assets

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

7. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide and proprietary fund 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 acquisition value.

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.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Capital Assets (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

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

8. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if it has matured, for example, as a result of employee resignations and retirements. The current portion is a percentage based on the average of the previous five-year severance payouts. For the governmental activities, compensated absences are liquidated by the General Fund and the Road and Bridge Special Revenue Fund. For the business-type activities, compensated absences are liquidated by the Landfill Enterprise Fund.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Long-Term Obligations

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

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

10. Unearned Revenue

Governmental funds and government-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned.

11. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents consumption of net assets that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. The County reports deferred outflows of resources only under the full accrual basis of accounting associated with pension plans and other postemployment benefits (OPEB) and, accordingly, they are reported only in the statement of net position.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The County has three types of deferred inflows. The governmental funds report unavailable revenue from delinquent taxes and special assessments receivable and grants receivable. Unavailable revenue arises only under the modified accrual basis of accounting and, accordingly, is reported only in the governmental funds balance sheet. Unavailable revenue is deferred and recognized as an inflow of resources in the period that the amounts become available. The County also reports deferred inflows of resources associated with pension plans and OPEB. These inflows arise only under the full accrual basis of accounting and, accordingly, are reported only in the statement of net position.

12. Pension Plan

For purposes of measuring the net pension asset, liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association of Minnesota (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year-end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates, and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value. For the governmental activities, the net pension liability is liquidated by the General Fund and the Road and Bridge Special Revenue Fund. For the business-type activities, the net pension liability is liquidated by the Landfill Enterprise Fund.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

13. Classification of Net Position

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

Investment in capital assets – the amount of net position representing capital assets, net of accumulated depreciation.

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

Unrestricted – the amount of net position that does not meet the definition of restricted or investment in capital assets.

14. Classification of Fund Balances

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

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

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

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

14. Classification of Fund Balances (Continued)

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

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

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

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

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

15. 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 certain estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources; 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.

16. Prior Period Adjustment – Restructuring of Funds

During the year ended December 31, 2021, Cottonwood County re-evaluated the long-term capital outlay activity and determined reporting the activities in the Capital Projects Fund rather than the General Fund would be beneficial for financial statement users and allowed under generally accepted accounting principles.

The following balances as of January 1, 2021, were adjusted to reflect this change.

	General Fund	Building Capital Projects Fund
Fund balance January 1, 2021, as previously reported	\$ 9,999,788	\$ 184,201
Reclassification of capital outlay activity	(1,810,831)	1,810,831
Fund Balance, January 1, 2021, as restated	\$ 8,188,957	\$ 1,995,032

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Balance

The Ditch Special Revenue Fund had a negative fund balance of \$200,000 as of December 31, 2021; 16 of the 87 ditch systems had deficit balances. The deficits will be eliminated with future special assessment levies against the benefited properties. The following is a summary of the individual ditch systems:

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Balance (Continued)

71 ditches with positive fund balances	\$ 733,469
16 ditches with deficit fund balances	<u>(933,469)</u>
Total Fund Balance	<u>\$ (200,000)</u>

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net position	
Governmental activities	
Cash and pooled investments	\$ 16,334,102
Business-type activities	
Cash and pooled investments	219,717
Cash and pooled investments – restricted assets	1,993,178
Statement of fiduciary net position	
Custodial funds	
Cash and pooled investments	<u>467,406</u>
Total Cash and Investments	<u>\$ 19,014,403</u>

a. Deposits

The County is authorized by Minn. Stat. § 118A.02 to designate a depository for public funds. 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 federally insured time deposits. 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, 2021, 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) time deposits that are fully insured by the Federal Deposit Insurance Corporation or 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.

Fair Value of Investments

The County measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and
- *Level 3:* Unobservable inputs.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Fair Value of Investments (Continued)

At December 31, 2021, the County had the following recurring fair value measurements.

	December 31, 2021	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Debt securities				
U.S. agencies	\$ 800,000	\$ -	\$ 800,000	\$ -
Negotiable certificates of deposit	2,207,000	-	2,207,000	-
Total Investments Included in the Fair Value Hierarchy	<u>\$ 3,007,000</u>	<u>\$ -</u>	<u>\$ 3,007,000</u>	<u>\$ -</u>

Investments classified in Level 2 are valued using the following approaches:

- U.S. Agencies: a market approach by utilizing quoted prices for identical securities in markets that are not active; and
- Negotiable Certificates of Deposit: matrix pricing based on the securities' relationship to benchmark quoted prices.

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.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

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

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, 2021, 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.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County's cash and investment balances at December 31, 2021, 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% of Portfolio	Maturity Date	
Federal Home Loan Bank bond (1)	AA+	S&P		11/18/2024	\$ 100,000
Federal Home Loan Bank bond (1)	AA+	S&P		02/26/2026	150,000
Federal Home Loan Bank bond (1)	AA+	S&P		03/17/2026	225,000
Federal Home Loan Bank bond (1)	AA+	S&P		03/17/2026	200,000
Federal Home Loan Bank bond (1)	AA+	S&P		06/30/2026	125,000
Total Federal Home Loan Bank bonds			26.6%		\$ 800,000
Negotiable certificates of deposit with brokers	N/A	N/A	N/A	Various	2,207,000
Total investments					\$ 3,007,000
Checking					14,881,053
Savings					1,025,000
Petty cash and change funds					4,350
Certificates of deposit					97,000
Total Cash and Investments					\$ 19,014,403

(1) – These securities have step provisions, which could result in the notes being called prior to maturity.

N/A – Not Applicable

S&P – Standard & Poor's

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2021, 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	\$ 61,631	\$ -
Special assessments – delinquent	27,747	-
Special assessments – noncurrent	1,536,492	1,305,762
Accounts	405,230	386,095
Loans	100,980	97,147
Due from other governments	2,195,702	-
Total Governmental Activities	\$ 4,327,782	\$ 1,789,004
Business-Type Activities		
Accounts	\$ 52,119	\$ -

Details on Loans Receivable

In 2012, Cottonwood County agreed to loan the Southwest Mental Health Center \$131,000 at 2.00 percent interest to help construct a new administrative building. Funds were issued to the Southwest Mental Health Center on May 23, 2013. At December 31, 2021, the outstanding loan balance was \$100,980.

**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, 2021, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 452,310	\$ -	\$ -	\$ 452,310
Right-of-way	796,481	61,978	-	858,459
Construction in progress	3,948,501	9,953	3,948,501	9,953
Total capital assets not depreciated	\$ 5,197,292	\$ 71,931	\$ 3,948,501	\$ 1,320,722
Capital assets depreciated				
Buildings	\$ 6,379,349	\$ -	\$ -	\$ 6,379,349
Machinery and equipment	7,342,131	687,739	862,695	7,167,175
Infrastructure	76,320,095	10,176,435	-	86,496,530
Total capital assets depreciated	\$ 90,041,575	\$ 10,864,174	\$ 862,695	\$ 100,043,054
Less: accumulated depreciation for				
Buildings	\$ 3,168,259	\$ 137,517	\$ -	\$ 3,305,776
Machinery and equipment	4,666,970	507,183	754,200	4,419,953
Infrastructure	26,192,251	1,691,318	-	27,883,569
Total accumulated depreciation	\$ 34,027,480	\$ 2,336,018	\$ 754,200	\$ 35,609,298
Total capital assets depreciated, net	\$ 56,014,095	\$ 8,528,156	\$ 108,495	\$ 64,433,756
Governmental Activities Capital Assets, Net	\$ 61,211,387	\$ 8,600,087	\$ 4,056,996	\$ 65,754,478

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 249,586	\$ -	\$ -	\$ 249,586
Capital assets depreciated				
Buildings	\$ 52,731	\$ -	\$ -	\$ 52,731
Land improvements	3,511,154	-	-	3,511,154
Machinery and equipment	1,000,532	5,895	15,453	990,974
Total capital assets depreciated	\$ 4,564,417	\$ 5,895	\$ 15,453	\$ 4,554,859
Less: accumulated depreciation for				
Buildings	\$ 29,883	\$ 968	\$ -	\$ 30,851
Land improvements	2,309,496	149,561	-	2,459,057
Machinery and equipment	609,055	95,708	15,453	689,310
Total accumulated depreciation	\$ 2,948,434	\$ 246,237	\$ 15,453	\$ 3,179,218
Total capital assets depreciated, net	\$ 1,615,983	\$ (240,342)	\$ -	\$ 1,375,641
Business-Type Activities				
Capital Assets, Net	\$ 1,865,569	\$ (240,342)	\$ -	\$ 1,625,227

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

Governmental Activities	
General government	\$ 91,896
Public safety	103,984
Highways and streets, including depreciation of infrastructure assets	2,119,429
Conservation of natural resources	9,068
Culture and recreation	4,945
Sanitation	6,696
Total Depreciation Expense – Governmental Activities	<u>\$ 2,336,018</u>
Business-Type Activities	
Landfill	<u>\$ 246,237</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2021, is as follows:

1. Advances To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Ditch Special Revenue Landfill Enterprise Fund	\$ 923,523 <u>912,000</u>
Total Advances To/From Other Funds		\$ 1,835,523

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.

The advance to the Landfill Enterprise Fund is for the construction of cell 8 at the landfill. The landfill is not expected to repay \$840,000 within the subsequent year.

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2021, consisted of the following:

Transfer In	Transfer Out	Amount	Purpose
Building Capital Projects Fund Landfill Enterprise Fund	General Fund	\$ 1,182,500 <u>18,794</u>	Long-term capital outlay Interest distribution
Total Transfers To/From Other Funds		\$ 1,201,294	

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities and Deferred Inflows of Resources

1. Construction Commitments

The County has active construction projects as of December 31, 2021. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Road and Bridge Special Revenue Fund		
SP 017-607-021 and SP 017-070-004	\$ 5,040,787	\$ 102,223
SAP 017-611-018	-	447,960
Concrete crushing	-	104,000
Oil distributor	-	135,000
	\$ 5,040,787	\$ 789,183
Total		

2. Long-Term Debt

Governmental Activities

Loans Payable

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

3. Debt Service Requirements

Debt service requirements at December 31, 2021, were as follows:

Governmental Activities

<u>Year Ending December 31</u>	<u>Loans Payable*</u>	
	<u>Principal</u>	<u>Interest</u>
2022	\$ 160,838	\$ 3,501
2023	155,388	2,475
2024	148,170	1,603
2025	130,737	1,055
2026	137,566	934
2027 - 2031	222,477	-
Total	<u>\$ 955,176</u>	<u>\$ 9,568</u>

*The debt service requirements for a loan from the Minnesota Pollution Control Agency of \$690,060 are not known as of December 31, 2021.

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2021, 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>
Loans payable	1,421,951	388,519	165,234	1,645,236	160,838
Compensated absences	710,183	291,555	348,510	653,228	63,363
Governmental Activities Long-Term Liabilities	<u>\$ 2,132,134</u>	<u>\$ 680,074</u>	<u>\$ 513,744</u>	<u>\$ 2,298,464</u>	<u>\$ 224,201</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

4. Changes in Long-Term Liabilities (Continued)

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Estimated liability for landfill closure and postclosure care	\$ 1,536,963	\$ 479,268	\$ -	\$ 2,016,231	\$ -
Compensated absences	35,703	6,536	11,632	30,607	2,969
Business-Type Activities					
Long-Term Liabilities	<u>\$ 1,572,666</u>	<u>\$ 485,804</u>	<u>\$ 11,632</u>	<u>\$ 2,046,838</u>	<u>\$ 2,969</u>

5. Nonexchange Financial Guaranties – Red Rock Rural Water System

The Red Rock Rural Water System (RRRWS) was established by the Fifth Judicial District under Minn. Stat. §§ 116A.01 through 116A.26 to serve as a multi-county water system in the Counties of Brown, Cottonwood, Jackson, Lyon, Martin, Murray, Nobles, Redwood, and Watonwan.

On August 18, 2011, pursuant to Minn. Stat. chs. 475 and 116A, the County issued the \$1,450,000 G.O. Crossover Refunding Bonds, Series 2011A, on behalf of the RRRWS to refund the outstanding portion of the G.O. Refunding Bonds, Series 2003. Scheduled bond payments for the issuance began on July 1, 2012, and continue until the final maturity date of January 1, 2027. Bonds maturing on January 1, 2019, and thereafter are subject to a continuous early redemption option.

On December 17, 2020, pursuant to Minn. Stat. chs. 475 and 116A, the County issued the \$4,590,000 G.O. Water Revenue Refunding Bonds, Series 2020A, on behalf of the RRRWS to current refund the G.O. Water Revenue Bonds, Series 2008A and the G.O. Water Revenue Bonds, Series 2008C. Scheduled bond payments for this issuance begin on July 1, 2021, and continue until the final maturity date of January 1, 2048. Bonds maturing on January 1, 2030, and thereafter, are subject to a continuous early redemption option.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

5. Nonexchange Financial Guaranties – Red Rock Rural Water System (Continued)

On December 23, 2020, pursuant to Minn. Stat. chs. 475 and 116A, the County issued the \$1,350,000 G.O. Water Revenue Bonds, Series 2020B, on behalf of the RRRWS to finance water system improvements. Scheduled bond payments for this issuance begin on January 1, 2021, and continue until the final maturity date of January 1, 2040. Bonds are subject to a continuous early redemption option.

The RRRWS is responsible for the payment of all costs, principal, and interest relating to these bonds through special assessments on the properties being serviced or the net revenues of the water system. In the event of a deficiency in the debt service accounts established by the RRRWS, the County has validly obligated itself to levy additional ad valorem taxes upon all the taxable property within the County to complete debt payments as scheduled. No arrangements have been established for recovery payments should such an event occur. On December 31, 2021, the outstanding principal balance for the 2011A, 2020A, and 2020B bonds were \$655,000, \$4,590,000, and \$1,293,042, respectively.

6. Deferred Inflows of Resources – Unavailable Revenue

Deferred inflows of resources as of December 31, 2021, for the County's governmental funds are as follows:

	<u>Unavailable Revenue</u>
Delinquent property taxes	\$ 61,631
Special assessments receivable, delinquent and noncurrent	1,564,239
Highway allotments that do not provide current financial resources	2,195,702
Miscellaneous revenue	<u>386,095</u>
Total Governmental Funds	<u>\$ 4,207,667</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

7. 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 \$2,016,231 landfill closure and postclosure care liability at December 31, 2021, represents the cumulative amount reported to date based on the use of 78 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$564,868 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2021. The Board expects to close the landfill in 2035. Actual costs 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, 2021, the County has \$1,993,178 in assets restricted for these purposes. The County is underfunded in this account by \$23,053 at December 31, 2021. 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.

D. Other Postemployment Benefits (OPEB)

1. Plan Description

Cottonwood County administers an OPEB plan, a single-employer defined benefit health care plan, to eligible retirees and their dependents.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

D. Other Postemployment Benefits (OPEB)

1. Plan Description (Continued)

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 as established and amended by County resolution. There is no maximum number of years of coverage for officials elected prior to 1995. Those elected between 1995 and February 4, 2004, are restricted to a maximum of six years of coverage, and those elected thereafter are restricted to a maximum of four years. As of January 1, 2021, the maximum monthly contribution was set at \$800.

The County also provides health insurance benefits for eligible retired employees and their dependents. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b. Retirees are required to pay 100 percent of the total premium cost. Since the premium is determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy.

No assets have been accumulated in a trust that meets the criteria in paragraph four of GASB Statement 75. The OPEB plan does not issue a stand-alone financial report.

As of the January 1, 2021, actuarial valuation, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	4
Active plan participants	<u>82</u>
Total	<u>86</u>

2. Total OPEB Liability

The County's total OPEB liability of \$275,375 was determined by an actuarial valuation as of January 1, 2021, and measured as of that date. The OPEB liability is liquidated through the General Fund, the Landfill Enterprise Fund, and other governmental funds that have personal services.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

D. Other Postemployment Benefits (OPEB)

2. Total OPEB Liability (Continued)

The total OPEB liability in the fiscal year-end December 31, 2021, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25 percent
Salary increases	Graded by service years ranging from 10.25 percent for one year of service to 3.00 percent for 27 or more years of service
Health care cost trend	8.00 percent, decreasing 0.50 percent per year to an ultimate rate of 4.50 percent

The current year discount rate is 2.12 percent, which is a change from the prior year rate of 3.26 percent. For the current valuation, the discount rate was selected from a range of the Bond Buyer G.O. 20-year Bond Municipal Bond Index, the S&P Municipal Bond 20-year High Grade Rate Index, and the Fidelity 20-year G.O. Municipal Bond Index, where the range is given as the spread between the lowest and highest rate.

Mortality rates are based on SOA Pub-2010 General Headcount Weighted Mortality Table fully generational using Scale MP-2020.

The actuarial assumptions are currently based on a combination of historical information and the most recent actuarial valuation for PERA as of June 30, 2020.

3. Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at December 31, 2020	\$ 314,617
Changes for the year	
Service cost	\$ 32,913
Interest	10,755
Differences between expected and actual experience	(74,676)
Changes in assumptions	27,295
Benefit payments	(35,529)
Net change	<u>\$ (39,242)</u>
Balance at December 31, 2021	<u>\$ 275,375</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

D. Other Postemployment Benefits (OPEB) (Continued)

4. OPEB Liability Sensitivity

The following presents the total OPEB liability of the County, calculated using the discount rate previously disclosed, as well as what the County's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease (1.12%)	Discount Rate (2.12%)	1% Increase (3.12%)
Total OPEB liability	\$ 293,242	\$ 275,375	\$ 258,242

The following presents the total OPEB liability of the County, calculated using the health care cost trend previously disclosed, as well as what the County's total OPEB liability would be if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rate:

	1% Decrease (7.00% Decreasing to 3.50%)	Health Care Cost Trend Rate (8.00% Decreasing to 4.50%)	1% Increase (9.00% Decreasing to 5.50%)
Total OPEB liability	\$ 252,711	\$ 275,375	\$ 302,115

5. OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2021, the County recognized OPEB expense of \$45,020. The County reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

D. Other Postemployment Benefits (OPEB)

5. OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 122	\$ 79,261
Changes in actuarial assumptions	72,477	2,467
Contributions made subsequent to the measurement date	13,812	-
Total	\$ 86,411	\$ 81,728

The \$13,812 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ended December 31, 2022.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended December 31	OPEB Expense Amount
2022	\$ 1,352
2023	1,352
2024	1,352
2025	1,359
2026	(4,680)
Thereafter	(9,864)

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

D. Other Postemployment Benefits (OPEB) (Continued)

6. Changes in Actuarial Assumptions and Plan Provisions

The following changes in actuarial assumptions occurred in 2021:

- Mortality tables were updated to the SOA Pub-2010 General Headcount Weighted Mortality Table fully generational using Scale MP-2020 for general employees, the SOA Pub-2010 Non-Safety Disabled Retiree Headcount Weighted Mortality Table fully generational using Scale MP-2020 for disabled employees, and the SOA Pub-2010 Contingent Survivor Headcount Weighted Mortality Table fully generational using Scale MP-2020 for surviving spouses.
- Disability rates, retirement rates, and payroll growth rates were updated to follow the most recent PERA actuarial valuation as of June 30, 2020.
- Health care trend rates have been reset to an initial rate of 8.0 percent decreasing by 0.5 percent annually to an ultimate rate of 4.5 percent.
- The discount rate used changed from 3.26 percent to 2.12 percent.

E. Pension Plans

1. Defined Benefit Pension Plans

a. 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 Plan (the General Employees Plan), the Public Employees Police and Fire Plan (the Police and Fire Plan), and the Public Employees Local Government Correctional Service Retirement Plan (the Correctional Plan), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

a. Plan Description (Continued)

The General Employees Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security, and the Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service. No Cottonwood County employees belong to either the Basic Plan or the Minneapolis Employees Retirement Fund.

Police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Police and Fire Plan (accounted for in the Police and Fire Fund). For members first hired after June 30, 2010, but before July 1, 2014, benefits vest on a prorated basis starting with 50 percent after five years and increasing ten percent for each year of service until fully vested after ten years. Benefits for members first hired after June 30, 2014, vest on a prorated basis from 50 percent after ten years and increasing five percent for each year of service until fully vested after 20 years.

Local government employees of a county-administered facility who are responsible for the direct security, custody, and control of the county correctional facility and its inmates are covered by the Correctional Plan (accounted for in the Correctional Fund). For members hired after June 30, 2010, benefits vest on a prorated basis starting with 50 percent after five years and increasing ten percent for each year of service until fully vested after ten years.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans (Continued)

b. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January.

General Employees Plan benefit recipients will receive a post-retirement increase equal to 50 percent of the cost of living adjustment announced by the Social Security Administration, with a minimum increase of at least 1.00 percent and maximum of 1.50 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under the Rule of 90 are exempt from the delay to normal retirement.

Police and Fire Plan benefit recipients will receive a 1.00 percent post-retirement increase. Recipients that have been receiving the annuity or benefit for at least 36 months as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

Correctional Plan benefit recipients will receive a post-retirement increase equal to 100 percent of the cost of living adjustment announced by the Social Security Administration, with a minimum increase of at least 1.00 percent and maximum of 2.50 percent. If the Correctional Plan's funding status declines to 85 percent or below for two consecutive years, or 80 percent for one year, the maximum will be lowered from 2.50 percent to 1.50 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

b. Benefits Provided (Continued)

Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

The benefit provisions stated in the following paragraph 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 their public service.

Benefits are based on a member's highest average salary for any 60 consecutive months of allowable service, age, and years of credit at termination of service. In the General Employees Plan, two methods are used to compute benefits for Coordinated Plan members. Members hired prior to July 1, 1989, receive 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 Coordinated Plan member is 1.20 percent of average salary for each of the first ten years of service and 1.70 percent of average salary for each remaining year. Under Method 2, the annuity accrual rate is 1.70 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989. For Police and Fire Plan members, the annuity accrual rate is 3.00 percent of average salary for each year of service. For Correctional Plan members, the annuity accrual rate is 1.90 percent of average salary for each year of service.

For General Employees Plan members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. For Police and Fire Plan and Correctional Plan members, normal retirement age is 55, and for members who were hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90. Disability benefits are available for vested members and are based on years of service and average high-five salary.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans (Continued)

c. Contributions

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. Rates did not change from 2020.

In 2021, the County and members were required to contribute the following percentages of annual covered salary:

	Member Required Contribution	Employer Required Contribution
General Employees Plan – Coordinated Plan members	6.50%	7.50%
Police and Fire Plan	11.80	17.70
Correctional Plan	5.83	8.75

The County’s contributions for the year ended December 31, 2021, to the pension plans were:

General Employees Plan	\$	250,764
Police and Fire Plan		132,307
Correctional Plan		60,151

The contributions are equal to the statutorily required contributions as set by state statute.

d. Pension Costs

General Employees Plan

At December 31, 2021, the County reported a liability of \$1,977,218 for its proportionate share of the General Employees Plan’s net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

General Employees Plan (Continued)

actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2020, through June 30, 2021, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2021, the County's proportion was 0.0463 percent. It was 0.0440 percent measured as of June 30, 2020. The County recognized pension expense of \$27,390 for its proportionate share of the General Employees Plan's pension expense.

The County also recognized \$4,870 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's expense related to its contribution to the General Employees Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$16 million to the General Employees Plan annually until September 15, 2031.

The County's proportionate share of the net pension liability	\$ 1,977,218
State of Minnesota's proportionate share of the net pension liability associated with the County	<u>60,363</u>
Total	<u>\$ 2,037,581</u>

The County reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

General Employees Plan (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 11,649	\$ 60,161
Changes in actuarial assumptions	1,207,248	41,684
Difference between projected and actual investment earnings	-	1,719,674
Changes in proportion	121,421	19,350
Contributions paid to PERA subsequent to the measurement date	123,134	-
Total	\$ 1,463,452	\$ 1,840,869

The \$123,134 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2022	\$ (45,909)
2023	(3,333)
2024	15,740
2025	(467,049)

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs (Continued)

Police and Fire Plan

At December 31, 2021, the County reported a liability of \$483,978 for its proportionate share of the Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2020, through June 30, 2021, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2021, the County's proportion was 0.0627 percent. It was 0.0667 percent measured as of June 30, 2020. The County recognized pension expense of (\$43,451) for its proportionate share of the Police and Fire Plan's pension expense.

The State of Minnesota also contributed \$18 million to the Police and Fire Plan in the plan fiscal year ended June 30, 2021. The contribution consisted of \$9 million in direct state aid that meets the definition of a special funding situation and \$9 million in supplemental state aid that does not meet the definition of a special funding situation.

Legislation requires the State of Minnesota to pay direct state aid of \$9 million on October 1, 2020, and to pay \$9 million by October 1 of each subsequent year until full funding is reached, or July 1, 2048, whichever is earlier. The County recognized an additional \$3,961 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's pension expense related to the special funding situation.

The County's proportionate share of the net pension liability	\$ 483,978
State of Minnesota's proportionate share of the net pension liability associated with the County	<u>21,752</u>
Total	<u>\$ 505,730</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

Police and Fire Plan (Continued)

Legislation also requires the State of Minnesota to contribute \$9 million to the Police and Fire Plan each year, starting in fiscal year 2014, until the plan is 90 percent funded, or until the State Patrol Plan is 90 percent funded, whichever occurs later. The County also recognized \$5,643 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Police and Fire Plan.

The County reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 95,191	\$ -
Changes in actuarial assumptions	711,320	299,904
Difference between projected and actual investment earnings	-	920,143
Changes in proportion	17,640	73,925
Contributions paid to PERA subsequent to the measurement date	66,263	-
Total	\$ 890,414	\$ 1,293,972

The \$66,263 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

Police and Fire Plan (Continued)

Year Ended December 31	Pension Expense Amount
2022	\$ (361,554)
2023	(75,694)
2024	(70,321)
2025	(109,187)
2026	146,935

Correctional Plan

At December 31, 2021, the County reported an asset of \$51,814 for its proportionate share of the Correctional Plan's net pension asset. The net pension asset was measured as of June 30, 2021, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The County's proportion of the net pension asset was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2020, through June 30, 2021, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2021, the County's proportion was 0.3154 percent. It was 0.2988 percent measured as of June 30, 2020. The County recognized pension expense of (\$134,979) for its proportionate share of the Correctional Plan's pension expense.

The County reported its proportionate share of the Correctional Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

Correctional Plan (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 28,474
Changes in actuarial assumptions	324,342	4,606
Difference between projected and actual investment earnings	-	418,055
Changes in proportion	3,378	214
Contributions paid to PERA subsequent to the measurement date	28,260	-
Total	\$ 355,980	\$ 451,349

The \$28,260 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2022	\$ (15,984)
2023	(2,352)
2024	7,780
2025	(113,073)

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs (Continued)

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2021, was (\$151,040).

e. Actuarial Assumptions

The total pension liability in the June 30, 2021, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

	<u>General Employees Fund</u>	<u>Police and Fire Fund</u>	<u>Correctional Fund</u>
Inflation	2.25% per year	2.25% per year	2.25% per year
Active Member Payroll Growth	3.00% per year	3.00% per year	3.00% per year
Investment Rate of Return	6.50%	6.50%	6.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on the Pub-2010 General Employee Mortality table for the General Employees Plan and the Pub-2010 Public Safety Employee Mortality tables for the Police and Fire and the Correctional Plans, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1.25 percent for the General Employees Plan and 2.00 percent for the Correctional Plan. For the Police and Fire Plan, cost of living benefit increases for retirees are 1.00 percent as set by state statute.

Actuarial assumptions used in the June 30, 2021, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Plan was dated June 27, 2019. The experience study for the Police and Fire Plan was dated July 14, 2020. The experience study for the Correctional Plan was dated July 10, 2020. For all plans a review of inflation and investment assumptions dated June 24, 2021, was utilized.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

e. Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments is 6.50 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equities	33.50%	5.10%
International equities	16.50	5.30
Fixed income	25.00	0.75
Private markets	25.00	5.90

f. Discount Rate

The discount rate used to measure the total pension liability was 6.50 percent in 2021, which is a decrease of one percent from 2020. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net positions of the General Employees Plan, the Police and Fire Plan, and the Correctional Plan were projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans (Continued)

g. Changes in Actuarial Assumptions and Plan Provisions

The following changes in actuarial assumptions occurred in 2021:

General Employees Plan

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

Police and Fire Plan

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent.
- The inflation assumption was changed from 2.50 percent to 2.25 percent.
- The payroll growth assumption was changed from 3.25 percent to 3.00 percent.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from Scale MP-2019 to Scale MN-2020.
- The base mortality table for disabled annuitants was changed from the RP-2014 Healthy Annuitant Mortality table (with future mortality improvement according to Scale MP-2019) to the Pub-2010 Public Safety Disabled Annuitant Mortality table (with future mortality improvement according to Scale MP-2020).

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

g. Changes in Actuarial Assumptions and Plan Provisions

Police and Fire Plan (Continued)

- Assumed rates of salary increase were modified as recommended in the July 14, 2020, experience study. The overall impact is a decrease in gross salary increase rates.
- Assumed rates of retirement were changed as recommended in the July 14, 2020, experience study. The changes result in slightly more unreduced retirements and fewer assumed early retirements.
- Assumed rates of withdrawal were changed from select and ultimate rates to service-based rates. The changes result in more assumed terminations.
- Assumed rates of disability were increased for ages 25-44 and decreased for ages over 49. Overall, proposed rates result in more projected disabilities.
- Assumed percent married for active female members was changed from 60 percent to 70 percent. Minor changes to form of payment assumptions were applied.

Correctional Plan

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent.
- The inflation assumption was changed from 2.50 percent to 2.25 percent.
- The payroll growth assumption was changed from 3.25 percent to 3.00 percent.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans

g. Changes in Actuarial Assumptions and Plan Provisions

Correctional Plan (Continued)

- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from Scale MP-2019 to Scale MN-2020.
- The base mortality table for disabled annuitants was changed from the RP-2014 Healthy Annuitant Mortality table (with future mortality improvement according to Scale MP-2019) to the Pub-2010 Public Safety Disabled Annuitant Mortality table (with future mortality improvement according to Scale MP-2020).
- Assumed rates of salary increase were modified as recommended in the July 10, 2020, experience study. The overall impact is a decrease in gross salary increase rates.
- Assumed rates of retirement were changed as recommended in the July 10, 2020, experience study. The changes result in slightly more unreduced retirements and fewer assumed early retirements.
- Assumed rates of withdrawal were changed as recommended in the July 10, 2020, experience study. The new rates predict more terminations, both in the three-year select period (based on service) and the ultimate rates (based on age).
- Assumed rates of disability were lowered.
- Assumed percent married for active members was lowered from 85 percent to 75 percent.
- Minor changes to form of payment assumptions were applied.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

E. Pension Plans

1. Defined Benefit Pension Plans (Continued)

h. Pension Liability Sensitivity

The following presents the County’s proportionate share of the net pension liability calculated using the discount rate previously disclosed, as well as what the County’s proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	Proportionate Share of the					
	General Employees Plan		Police and Fire Plan		Correctional Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	5.50%	\$ 4,032,514	5.50%	\$ 1,536,547	5.50%	\$ 539,243
Current	6.50	1,977,218	6.50	483,978	6.50	(51,814)
1% Increase	7.50	290,721	7.50	(378,869)	7.50	(520,880)

i. Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org.

2. Defined Contribution Plan

Five elected officials 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**

3. Detailed Notes on All Funds

E. Pension Plans

2. 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 five percent of salary, which is matched by the employer. 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 two 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 Cottonwood County during the year ended December 31, 2021, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 6,937	\$ 6,937
Percentage of covered payroll	5.00%	5.00%

4. 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**

4. 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 \$500,000 per claim in 2021 and 2022. 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.

5. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

Cottonwood County continues to investigate and delineate the vinyl chloride plume from the landfill utilizing the services of Short Elliott Hendrickson, Inc. The Minnesota Pollution Control Agency is constantly and consistently informed of the investigative process and results.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

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

B. Joint Ventures

Counties Providing Technology

Counties Providing Technology (CPT) was established in 2018, under the authority conferred upon by member parties by Minn. Stat. § 471.59, for the purpose of purchasing the former software vendor, Computer Professionals Unlimited, Inc., (CPUI) and to provide for the development, operation, and maintenance of technology applications and systems. Cottonwood County and 22 other counties are members of CPT. Each member county provided an initial contribution to start up CPT and provide funds for the purchase of CPUI. CPT purchased CPUI in September 2018 for a purchase price of \$3,600,000.

Control is vested in the CPT Board, which consists of one individual appointed by each member county's Board of Commissioners. The joint powers agreement provides that initial operating capital contributed by each member is to be repaid from any excess in fund balance at the end of the fiscal year, in proportion to the initial contribution. Once the initial contribution is repaid, there is no remaining equity interest for the member counties.

Financing is primarily from county member contributions. During 2021, Cottonwood County contributed \$69,630 to CPT. Current financial information can be obtained from the Stevens County Auditor/Treasurer, 400 Colorado Avenue, Suite 303, Morris, Minnesota 56267.

Des Moines Valley Health and Human Services

Des Moines Valley Health and Human Services (DVHHS) was formed pursuant to Minn. Stat. § 471.59, by Cottonwood and Jackson Counties. DVHHS began official operations on January 1, 2014, and performs human services and public health functions. Funding is provided by the member counties based on consideration of the population based on the most recent national census. DVHHS is governed by the Board of Commissioners made up of the five Commissioners from each member county.

Financing is provided by state and federal grants and appropriations from member counties. Cottonwood County's contributions in 2021 for the health and human services function were \$2,851,644. Complete financial statements of DVHHS can be obtained at 11 Fourth Street, Windom, Minnesota 56111.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Cottonwood County Family Services Collaborative

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

The Collaborative is financed primarily by state grants. Control of the Collaborative is vested in the Governing Board consisting of ten members. The Governing Board is composed of one member from each Executive Committee organization. The DVHHS acts as the fiscal agent for the Collaborative. During 2021, Cottonwood County provided \$20,000 in funding to the Collaborative Integrated Fund.

Complete financial information can be obtained by contacting DVHHS at 11 Fourth Street, Windom, Minnesota 56111.

Red Rock Rural Water System

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

The governing body is composed of nine members appointed to three-year terms by the District Court. Each county is responsible for levying and collecting the special assessments from the benefited properties within the county. The bond issue and notes payable are shown as long-term debt in the financial statements of the Red Rock Rural Water System. Complete financial information can be obtained from the Red Rock Rural Water System, 305 West Whited Street, Jeffers, Minnesota 56145.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Southwest Regional Solid Waste Commission

Cottonwood County has entered into a joint powers agreement with 11 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.

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 North Rebecca Street, PO Box 29, Ivanhoe, Minnesota 56142.

Southwestern Minnesota Adult Mental Health Consortium Board

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

The Board takes actions and enters into agreements as necessary to plan and develop within the Southwestern Minnesota Adult Mental Health Consortium Board's geographic jurisdiction, a system of care that serves the needs of adults with serious and persistent mental illness. The Governing Board is composed of one Board member from each of the participating counties. Financing is provided by state proceeds or appropriations for the development of the system of care.

A complete financial report of the Southwestern Minnesota Adult Mental Health Consortium Board can be obtained by contacting DVHHS at 11 Fourth Street, Windom, Minnesota 56111.

Southwestern Mental Health Center, Inc.

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

During 2021, Cottonwood County did not contribute to Southwestern Mental Health Center, Inc., for mental health services. Complete financial statements for Southwestern Mental Health Center, Inc., can be obtained at 216 East Luverne Street, Luverne, Minnesota 56156.

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. 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 the year, Cottonwood County paid \$2,500 to the Board.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Southwest Minnesota Regional Emergency Communications Board

As of August 23, 2013, the Southwest Minnesota Regional Radio Board changed its name to the Southwest Minnesota Regional Emergency Communications Board. The Southwest Minnesota Regional Radio Board was established April 22, 2008, between Cottonwood County, the City of Marshall, the City of Worthington, and 12 other counties under authority of Minn. Stat. §§ 471.59 and 403.39. The purpose of the agreement is to formulate a regional radio board to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER).

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

Financing is provided by appropriations from member parties and by state and federal grants. During 2021, Cottonwood County contributed \$2,510 to the Joint Powers Board.

Southern Prairie Community Care

In 2014, the Southern Prairie Health Purchasing Alliance changed its name to Southern Prairie Community Care. Chippewa, Cottonwood, Jackson, Kandiyohi, Lincoln, Lyon, Murray, Nobles, Redwood, Rock, Swift, and Yellow Medicine Counties entered into a joint powers agreement on June 26, 2012, to establish the Southern Prairie Health Purchasing Alliance pursuant to the provisions of Minn. Stat. § 471.59. Southwest Health and Human Services represents Lincoln, Lyon, Murray, Redwood, and Rock counties in this agreement. The purpose of the joint powers is to plan, formulate, operate, and govern a rural care delivery system to improve the health and quality of life of the citizens of member counties. The Joint Powers Board is composed of one representative from each county.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southern Prairie Community Care (Continued)

Lyon County serves as fiscal agent and reports the transactions of Southern Prairie Community Care as a custodial fund on its financial statements. Financial information can be obtained by contacting Southern Prairie Community Care at 607 West Main Street, Marshall, Minnesota 56258.

Southwest Minnesota Private Industry Council, Inc.

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

SW MN PIC is governed by the Chief Elected Official Board, which is composed of one representative from each member county. Cottonwood County provided \$5,680 to this organization in 2021. Separate financial information can be obtained from the Lyon County Government Center, 607 West Main Street, Marshall, Minnesota 56258.

Advocate, Connect, Educate (A.C.E.) of Southwest Minnesota

Cottonwood County, in conjunction with Lincoln, Lyon, Murray, Nobles, Redwood, and Rock Counties, and the Southwest Regional Development Commission, pursuant to Minn. Stat. § 471.59, have formed an agreement to coordinate the delivery of volunteer services to non-profit community service entities and local units of government meeting the guidelines for receiving volunteer services under the authority of the counties. The entity known as Retired and Senior Volunteer Program of Southwest Minnesota (RSVP of Southwest Minnesota) changed its name to A.C.E. of Southwest Minnesota as of January 1, 2014. The Board comprises one voting member from each participating County and one voting member of the A.C.E. of Southwest Minnesota Advisory Council. In 2021, Cottonwood County made contributions of \$23,082 to the A.C.E. of Southwest Minnesota.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

PrimeWest Health

The PrimeWest Central County-Based Purchasing Initiative (since renamed PrimeWest Health) was established in December 1998 by a joint powers agreement with Big Stone, Douglas, Grant, McLeod, Meeker, Pipestone, Pope, Renville, Stevens, and Traverse Counties under the authority of Minn. Stat. § 471.59. Beltrami, Clearwater, and Hubbard Counties were later added to PrimeWest Health. Pipestone County has since joined Southwest Health and Human Services for public health and human services functions. The partnership is organized to directly purchase health care services for county residents who are eligible for Medical Assistance and General Assistance Medical Care as authorized by Minn. Stat. § 256B.692. County-based purchasing is the local control alternative favored for improved coordination of services to prepaid Medical Assistance programs in complying with Minnesota Department of Health requirements as set forth in Minn. Stat. chs. 62D and 62N.

Control of PrimeWest Health is vested in a Joint Powers Board of Directors, composed of two Commissioners from each member county (one active and one alternate). Each member of the Joint Powers Board of Directors is appointed by the County Commissioners of the county represented.

In the event of termination of the joint powers agreement, all assets owned pursuant to this agreement shall be sold, and the proceeds, together with monies on hand, will be distributed to the current members based on their proportional share of each member's county-based purchasing eligible population.

Financing is provided by Medical Assistance and General Assistance Medical Care payments from the Minnesota Department of Human Services, initial start-up loans from the member counties, and by proportional contributions from member counties, if necessary, to cover operational costs. Cottonwood County did not make any contributions to PrimeWest Health in 2021.

Complete financial information can be obtained from its administrative office at PrimeWest Health, 3905 Dakota Street, Suite 101, Alexandria, Minnesota 56308.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

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

C. Jointly-Governed Organizations

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

Area II Minnesota River Basin Project

The Area II Minnesota River Basin Project provides cost-share and technical assistance for the implementation of flood reduction measures to the area between the Cities of Ortonville and Mankato. During the year, Cottonwood County paid \$3,904 to the Project.

Greater Blue Earth River Basin Alliance

The Greater Blue Earth River Basin Alliance (GBERBA) establishes goals, policies, and objectives to protect and enhance land and water resources in the Greater Blue Earth River Basin. The Board consists of County Commissioners and members of the Soil and Water Conservation Districts. During the year, Cottonwood County made \$6,400 in contributions to the GBERBA.

Redwood-Cottonwood Rivers Control Area

The Redwood-Cottonwood Rivers Control Area (RCRCA) works to improve water quality, reduce erosion, and enhance recreational opportunities by providing education, outreach, monitoring, and technical assistance within the boundaries of the watersheds of the Redwood and Cottonwood Rivers for the participating counties. The RCRCA consists of Brown, Cottonwood, Lincoln, Lyon, Murray, Pipestone, Redwood, and Yellow Medicine Counties. During the year, Cottonwood County made payments of \$9,300 to the RCRCA.

Heron Lake Watershed District

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Region Five – Southwest Minnesota Homeland Security Emergency Management Organization

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

Minnesota Criminal Justice Data Communications Network

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

Minnesota Counties Computer Cooperative

Under the Minnesota Joint Powers Law, Minn. Stat. § 471.59, Minnesota counties have created the Minnesota Counties Computer Cooperative (MCCC) to jointly provide for the establishment, operation, and maintenance of data processing systems, facilities, and management information systems. During the year, Cottonwood County expended \$32,870 to the MCCC.

South Central Minnesota County Comprehensive Water Planning Project

The South Central Minnesota County Comprehensive Water Planning Project was established to provide regional water quality to Minnesota River Basin member counties. The project involves Blue Earth, Brown, Cottonwood, Faribault, Freeborn, Jackson, Le Sueur, Martin, Nicollet, Sibley, Steele, Waseca, and Watonwan Counties. Cottonwood County did not contribute to the Project in 2021.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

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

D. Subsequent Event

During 2022, final settlement agreements were reached with pharmaceutical companies and distributors as part of the National Prescription Opiate Litigation. For Cottonwood County, the amount to be received as a result of this litigation is \$386,095, to be received over 18 years, which has been recorded as an accounts receivable in the current year. The Minnesota Opioid State-Subdivision Memorandum of Agreement was signed January 24, 2022.

REQUIRED SUPPLEMENTARY INFORMATION

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 8,498,609	\$ 8,498,609	\$ 8,144,443	\$ (354,166)
Special assessments	177,000	177,000	247,179	70,179
Licenses and permits	17,460	17,460	28,566	11,106
Intergovernmental	1,457,498	1,457,498	2,317,007	859,509
Charges for services	497,850	497,850	504,538	6,688
Fines and forfeits	12,000	12,000	12,598	598
Investment earnings	95,000	95,000	116,354	21,354
Miscellaneous	346,159	346,159	790,631	444,472
Total Revenues	\$ 11,101,576	\$ 11,101,576	\$ 12,161,316	\$ 1,059,740
Expenditures				
Current				
General government				
Commissioners	\$ 503,462	\$ 503,462	\$ 463,046	\$ 40,416
Courts	107,800	107,800	49,990	57,810
Law library	11,000	11,000	5,067	5,933
Auditor/treasurer	516,360	516,360	521,254	(4,894)
Assessor	634,076	634,076	480,084	153,992
Geographic information system	22,300	22,300	20,106	2,194
Office of technology	304,321	304,321	281,978	22,343
Elections	113,612	113,612	117,565	(3,953)
Attorney	445,188	445,188	415,593	29,595
Recorder	397,161	397,161	371,191	25,970
Building and plant	220,196	220,196	208,131	12,065
Veterans service officer	126,393	126,393	120,188	6,205
Other general government	304,981	304,981	927,131	(622,150)
Total general government	\$ 3,706,850	\$ 3,706,850	\$ 3,981,324	\$ (274,474)
Public safety				
Sheriff	\$ 1,487,097	\$ 1,487,097	\$ 1,460,379	\$ 26,718
Emergency services	109,728	109,728	107,669	2,059
Coroner	30,000	30,000	44,421	(14,421)
Safety program	11,200	11,200	9,958	1,242
Jail	1,330,080	1,330,080	1,262,769	67,311
Probation and parole	182,062	182,062	173,884	8,178
Total public safety	\$ 3,150,167	\$ 3,150,167	\$ 3,059,080	\$ 91,087

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Sanitation				
Recycling	\$ 391,273	\$ 391,273	\$ 419,668	\$ (28,395)
Health and human services				
Environmental health	\$ 16,000	\$ 16,000	\$ 15,966	\$ 34
Culture and recreation				
Parks	\$ 161,287	\$ 161,287	\$ 185,984	\$ (24,697)
Regional library	51,270	51,270	63,720	(12,450)
Snow riders	-	-	115,508	(115,508)
Total culture and recreation	\$ 212,557	\$ 212,557	\$ 365,212	\$ (152,655)
Conservation of natural resources				
Extension	\$ 138,312	\$ 138,312	\$ 133,546	\$ 4,766
Soil and water conservation	157,066	157,066	117,640	39,426
Water planning	59,672	59,672	102,398	(42,726)
Water quality loan program	194,100	194,100	61,689	132,411
Environmental services	162,923	162,923	183,632	(20,709)
Total conservation of natural resources	\$ 712,073	\$ 712,073	\$ 598,905	\$ 113,168
Economic development				
County Relief Grant Program	\$ -	\$ -	\$ 257,000	\$ (257,000)
Intergovernmental				
Health and human services	\$ 2,851,644	\$ 2,851,644	\$ 2,851,644	\$ -
Debt service				
Principal	\$ -	\$ -	\$ 165,234	\$ (165,234)
Interest	-	-	4,901	(4,901)
Total debt service	\$ -	\$ -	\$ 170,135	\$ (170,135)
Total Expenditures	\$ 11,040,564	\$ 11,040,564	\$ 11,718,934	\$ (678,370)
Excess of Revenues Over (Under) Expenditures	\$ 61,012	\$ 61,012	\$ 442,382	\$ 381,370

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources (Uses)				
Transfers out	\$ -	\$ -	\$ (1,201,294)	\$ (1,201,294)
Loans issued	60,000	60,000	388,519	328,519
Proceeds from the sale of capital assets	18,000	18,000	-	(18,000)
Total Other Financing Sources (Uses)	\$ 78,000	\$ 78,000	\$ (812,775)	\$ (890,775)
Net Change in Fund Balance	\$ 139,012	\$ 139,012	\$ (370,393)	\$ (509,405)
Fund Balance – January 1, as previously reported	\$ 9,999,788	\$ 9,999,788	\$ 9,999,788	\$ -
Restatement (Note 1.D.16)	(1,810,831)	(1,810,831)	(1,810,831)	-
Fund Balance – January 1, as restated	\$ 8,188,957	\$ 8,188,957	\$ 8,188,957	\$ -
Fund Balance – December 31	\$ 8,327,969	\$ 8,327,969	\$ 7,818,564	\$ (509,405)

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,378,891	\$ 2,378,891	\$ 2,378,757	\$ (134)
Licenses and permits	20,000	20,000	17,200	(2,800)
Intergovernmental	8,591,098	8,591,098	8,742,982	151,884
Charges for services	30,000	30,000	139,048	109,048
Miscellaneous	145,000	145,000	199,903	54,903
Total Revenues	\$ 11,164,989	\$ 11,164,989	\$ 11,477,890	\$ 312,901
Expenditures				
Current				
Highways and streets				
Administration	\$ 605,912	\$ 605,912	\$ 435,984	\$ 169,928
Maintenance	1,869,763	1,869,763	1,884,361	(14,598)
Construction	6,925,474	6,925,474	6,264,406	661,068
Equipment and maintenance shops	1,309,907	1,309,907	1,227,136	82,771
Total highways and streets	\$ 10,711,056	\$ 10,711,056	\$ 9,811,887	\$ 899,169
Intergovernmental				
Highways and streets	453,933	453,933	434,910	19,023
Total Expenditures	\$ 11,164,989	\$ 11,164,989	\$ 10,246,797	\$ 918,192
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ -	\$ 1,231,093	\$ 1,231,093
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	-	1,005	1,005
Net Change in Fund Balance	\$ -	\$ -	\$ 1,232,098	\$ 1,232,098
Fund Balance – January 1	2,511,423	2,511,423	2,511,423	-
Increase (decrease) in inventories	-	-	278,363	278,363
Fund Balance – December 31	\$ 2,511,423	\$ 2,511,423	\$ 4,021,884	\$ 1,510,461

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT A-3

**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2021**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB Liability					
Service cost	\$ 32,913	\$ 29,020	\$ 25,644	\$ 23,659	\$ 8,999
Interest	10,755	12,546	10,458	11,251	7,658
Changes of benefit terms	-	-	-	9,791	-
Differences between expected and actual experience	(74,676)	164	(1,968)	(21,310)	(4,586)
Changes of assumption or other inputs	27,295	15,675	(3,949)	7,077	74,920
Benefit payments	<u>(35,529)</u>	<u>(37,690)</u>	<u>(27,087)</u>	<u>(20,438)</u>	<u>(39,115)</u>
Net change in total OPEB liability	\$ (39,242)	\$ 19,715	\$ 3,098	\$ 10,030	\$ 47,876
Total OPEB Liability – Beginning	<u>314,617</u>	<u>294,902</u>	<u>291,804</u>	<u>281,774</u>	<u>233,898</u>
Total OPEB Liability – Ending	<u>\$ 275,375</u>	<u>\$ 314,617</u>	<u>\$ 294,902</u>	<u>\$ 291,804</u>	<u>\$ 281,774</u>
Covered-employee payroll	\$ 4,597,120	\$ 4,487,961	\$ 4,367,845	\$ 4,083,191	\$ 3,954,664
Total OPEB liability (asset) as a percentage of covered-employee payroll	5.99%	7.01%	6.75%	7.15%	7.13%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT A-4

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2021**

Measurement Date	Employer's Proportion of the Net Pension Liability / Asset	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Cottonwood County (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2021	0.0463 %	\$ 1,977,218	\$ 60,363	\$ 2,037,581	\$ 3,332,155	59.34 %	87.00 %
2020	0.0440	2,638,001	81,245	2,719,246	3,132,392	84.22	79.06
2019	0.0444	2,454,777	76,163	2,530,940	3,141,273	78.15	80.23
2018	0.0437	2,424,297	79,638	2,503,935	2,938,376	82.50	79.53
2017	0.0455	2,904,690	36,528	2,941,218	2,931,536	99.08	75.90
2016	0.0442	3,588,821	46,790	3,635,611	2,726,276	131.64	68.91
2015	0.0441	2,285,491	N/A	2,285,491	2,661,420	85.87	78.19

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The measurement date for each year is June 30.
N/A – Not Applicable

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT A-5

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2021**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2021	\$ 250,764	\$ 250,764	\$ -	\$ 3,343,515	7.50 %
2020	241,892	241,892	-	3,225,227	7.50
2019	237,075	237,075	-	3,160,998	7.50
2018	227,619	227,619	-	3,034,917	7.50
2017	214,441	214,441	-	2,857,339	7.50
2016	221,212	221,212	-	2,949,196	7.50
2015	201,271	201,271	-	2,682,647	7.50

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The County's year-end is December 31.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT A-6

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2021**

Measurement Date	Employer's Proportion of the Net Pension Liability / Asset	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Cottonwood County (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2021	0.0627 %	\$ 483,978	\$ 21,752	\$ 505,730	\$ 737,603	65.61 %	93.66 %
2020	0.0667	879,177	20,721	899,898	752,700	116.80	87.19
2019	0.0694	738,833	N/A	738,833	732,528	100.86	89.26
2018	0.0686	731,205	N/A	731,205	722,622	101.19	88.84
2017	0.0710	958,584	N/A	958,584	723,927	132.41	85.43
2016	0.0690	2,769,090	N/A	2,769,090	632,067	438.10	63.88
2015	0.0640	727,190	N/A	727,190	581,888	124.97	86.61

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The measurement date for each year is June 30.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT A-7

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2021**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2021	\$ 132,307	\$ 132,307	\$ -	\$ 747,501	17.70 %
2020	131,805	131,805	-	744,663	17.70
2019	125,411	125,411	-	739,887	16.95
2018	117,506	117,506	-	725,345	16.20
2017	114,244	114,244	-	705,068	16.20
2016	115,740	115,740	-	714,650	16.20
2015	96,819	96,819	-	597,738	16.20

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The County's year-end is December 31.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT A-8

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES LOCAL GOVERNMENT CORRECTIONAL SERVICE RETIREMENT PLAN
DECEMBER 31, 2021**

Measurement Date	Employer's Proportion of the Net Pension Liability / Asset	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2021	0.3154 %	\$ (51,814)	\$ 695,283	(7.45) %	101.61 %
2020	0.2988	81,076	650,285	12.47	96.67
2019	0.2997	41,493	639,351	6.49	98.17
2018	0.3034	49,900	619,731	8.05	97.64
2017	0.3100	883,503	622,062	142.03	67.89
2016	0.2800	1,022,879	520,527	196.51	58.16
2015	0.2700	41,742	479,860	8.70	96.95

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The measurement date for each year is June 30.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT A-9

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES LOCAL GOVERNMENT CORRECTIONAL SERVICE RETIREMENT PLAN
DECEMBER 31, 2021**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2021	\$ 60,151	\$ 60,151	\$ -	\$ 687,441	8.75 %
2020	57,873	57,873	-	661,403	8.75
2019	56,474	56,474	-	645,413	8.75
2018	55,040	55,040	-	629,027	8.75
2017	53,023	53,023	-	606,249	8.75
2016	49,357	49,357	-	564,095	8.75
2015	44,352	44,352	-	507,119	8.75

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The County's year-end is December 31.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2021**

1. Budget Information

The Cottonwood County Board adopts estimated revenue and expenditure budgets for the General Fund and the Road and Bridge Special Revenue Fund. 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 the Road and Bridge Special Revenue Fund.

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

2. Budget Amendments

The revenue and expenditure budgets were not amended during the year.

3. Excess of Expenditures Over Appropriations

The following fund had expenditures in excess of appropriations (the legal level of budgetary control) for the year ended December 31, 2021:

<u>Fund</u>	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 11,718,934	\$ 11,040,564	\$ 678,370

The expenditures in excess of budget were funded by unbudgeted revenues and fund balance.

4. Other Postemployment Benefits Funded Status

Assets have not been accumulated in a trust that meets the criteria in paragraph four of GASB Statement 75 to pay related benefits.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

5. Other Postemployment Benefits – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

The following changes in actuarial assumptions occurred:

2021

- Mortality tables were updated to the SOA Pub-2010 General Headcount Weighted Mortality Table fully generational using Scale MP-2020 for general employees, the SOA Pub-2010 Non-Safety Disabled Retiree Headcount Weighted Mortality Table fully generational using Scale MP-2020 for disabled employees, and the SOA Pub-2010 Contingent Survivor Headcount Weighted Mortality Table fully generational using Scale MP-2020 for surviving spouses.
- Disability rates, retirement rates, and payroll growth rates were updated to follow the most recent PERA actuarial valuation as of June 30, 2020.
- Health care trend rates have been reset to an initial rate of 8.0 percent decreasing by 0.5 percent annually to an ultimate rate of 4.5 percent.
- The discount rate used changed from 3.26 percent to 2.12 percent.

2020

- The discount rate used changed from 4.11 percent to 3.26 percent.

2019

- The discount rate used changed from 3.44 percent to 4.11 percent.
- Mortality tables used were changed for healthy lives from SOA RPH-2017 Total Dataset Mortality Table fully generational using Scale MP-2017 to SOA RPH-2018 total Dataset Mortality Table fully generational using Scale MP-2018. Mortality tables used for disabled lives changed from SOA RPH-2017 Total Dataset Mortality Table fully generational using Scale MP-2017 to SOA RPH-2018 Disabled Retiree Mortality Table fully generational using Scale MP-2018.
- The retirement assumption has been updated to follow the Public Employees Retirement Association (PERA) actuarial valuation as of June 30, 2018.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

5. Other Postemployment Benefits – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

2019 (Continued)

- Health care trend rates have been reset to an initial rate of 8.0 percent decreasing by 0.5 percent annually to an ultimate rate of 4.5 percent.
- For elected officials, age and marital status assumptions have been updated to follow PERA assumptions as of June 30, 2018. Spousal age difference has also been updated to follow PERA assumptions for all other County employees.

2018

- The discount rate used changed from 3.81 percent to 3.44 percent.

2017

- The discount rate used changed from 3.57 percent to 3.81 percent.
- Mortality tables used were changed for healthy lives from 2000 Retired Pensioners Mortality Rates for Male and Female to SOA RPH-2017 Total Dataset Mortality Table fully generational using Scale MP-2017. Mortality tables used for disabled lives changed from 2000 Retired Pensioners Mortality Rates for Male and Female set ahead 20 years to SOA RPH-2017 Total Dataset Mortality Table fully generational using Scale MP-2017.
- The retirement assumption has been updated to follow the PERA actuarial valuation as of June 30, 2016.
- The health care election assumption for County employees who are not elected officials has been increased from 25 percent to 40 percent based on actual historical County information.
- Health care trend rates have been reset to an initial rate of 8.0 percent decreasing by 0.5 percent annually to an ultimate rate of 4.5 percent.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

5. Other Postemployment Benefits – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions (Continued)

The following change in plan provisions occurred:

2018

- The maximum County subsidy for elected officials increased from \$720 per month to \$800 per month for all coverage levels.

6. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the fiscal year June 30:

General Employees Retirement Plan

2021

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

2020

- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25 percent less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

6. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

General Employees Retirement Plan

2020 (Continued)

- Assumed rates of termination were changed as recommended in the June 30, 2019, experience study. The new rates are based on service and are generally lower than the previous rates for years two to five and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019, experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Employee Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 Disabled Annuitant Mortality table to the Pub-2010 General/Teacher Disabled Retiree Mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100 percent Joint and Survivor option changed from 35 percent to 45 percent. The assumed number of married female new retirees electing the 100 percent Joint and Survivor option changed from 15 percent to 30 percent. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.
- Augmentation for current privatized members was reduced to 2.00 percent for the period July 1, 2020, through December 31, 2023, and 0.00 percent thereafter. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2019

- The mortality projection scale was changed from Scale MP-2017 to Scale MP-2018.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

6. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

General Employees Retirement Plan (Continued)

2018

- The mortality projection scale was changed from Scale MP-2015 to Scale MP-2017.
- The assumed benefit increase rate was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter, to 1.25 percent per year.
- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90 percent funding to 50 percent of the Social Security cost of living adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to the Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

6. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

General Employees Retirement Plan (Continued)

2017

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60 percent for vested and non-vested deferred members (30 percent for deferred Minneapolis Employees Retirement Fund members). The revised CSA loads are now 0.00 percent for active member liability, 15 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.
- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to \$21 million in calendar years 2017 and 2018 and returns to \$31 million through calendar year 2031. The state's required contribution is \$16 million in PERA's fiscal years 2018 and 2019 and returns to \$6 million annually through calendar year 2031.

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

6. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions (Continued)

Public Employees Police and Fire Plan

2021

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent.
- The inflation assumption was changed from 2.50 percent to 2.25 percent.
- The payroll growth assumption was changed from 3.25 percent to 3.00 percent.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from Scale MP-2019 to Scale MN-2020.
- The base mortality table for disabled annuitants was changed from the RP-2014 Healthy Annuitant Mortality table (with future mortality improvement according to Scale MP-2019) to the Pub-2010 Public Safety Disabled Annuitant Mortality table (with future mortality improvement according to Scale MP-2020).
- Assumed rates of salary increase were modified as recommended in the July 14, 2020, experience study. The overall impact is a decrease in gross salary increase rates.
- Assumed rates of retirement were changed as recommended in the July 14, 2020, experience study. The changes result in slightly more unreduced retirements and fewer assumed early retirements.
- Assumed rates of withdrawal were changed from select and ultimate rates to service-based rates. The changes result in more assumed terminations.
- Assumed rates of disability were increased for ages 25-44 and decreased for ages over 49. Overall, proposed rates result in more projected disabilities.
- Assumed percent married for active female members was changed from 60 percent to 70 percent. Minor changes to form of payment assumptions were applied.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

6. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

Public Employees Police and Fire Plan (Continued)

2020

- The mortality projection scale was changed from Scale MP-2018 to Scale MP-2019.

2019

- The mortality projection scale was changed from Scale MP-2017 to Scale MP-2018.

2018

- The mortality projection scale was changed from Scale MP-2016 to Scale MP-2017.
- Post-retirement benefit increases changed to 1.00 percent for all years, with no trigger.
- An end date of July 1, 2048, was added to the existing \$9.0 million state contribution. Additionally, annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter, until the plan reaches 100 percent funding, or July 1, 2048, if earlier.
- Member contributions were changed effective January 1, 2019, and January 1, 2020, from 10.80 percent to 11.30 and 11.80 percent of pay, respectively. Employer contributions were changed effective January 1, 2019, and January 1, 2020, from 16.20 percent to 16.95 and 17.70 percent of pay, respectively. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

6. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

Public Employees Police and Fire Plan (Continued)

2017

- The assumed salary increases were changed as recommended in the June 30, 2016, experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- The assumed rates of retirement were changed, resulting in fewer retirements.
- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA load has been changed to 33 percent for vested members and 2.00 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality table assumed for healthy retirees.
- The assumed termination rates were decreased to 3.00 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- The assumed percentage of married female members was decreased from 65 percent to 60 percent.
- The assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing joint and survivor annuities was increased.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

6. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

Public Employees Police and Fire Plan

2017 (Continued)

- The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.
- The single discount rate was changed from 5.60 percent per annum to 7.50 percent per annum.

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.60 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Public Employees Local Government Correctional Service Retirement Plan

2021

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent.
- The inflation assumption was changed from 2.50 percent to 2.25 percent.
- The payroll growth assumption was changed from 3.25 percent to 3.00 percent.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from Scale MP-2019 to Scale MN-2020.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

6. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

Public Employees Local Government Correctional Service Retirement Plan

2021 (Continued)

- The base mortality table for disabled annuitants was changed from the RP-2014 Healthy Annuitant Mortality table (with future mortality improvement according to Scale MP-2019) to the Pub-2010 Public Safety Disabled Annuitant Mortality table (with future mortality improvement according to Scale MP-2020).
- Assumed rates of salary increase were modified as recommended in the July 10, 2020, experience study. The overall impact is a decrease in gross salary increase rates.
- Assumed rates of retirement were changed as recommended in the July 10, 2020, experience study. The changes result in slightly more unreduced retirements and fewer assumed early retirements.
- Assumed rates of withdrawal were changed as recommended in the July 10, 2020, experience study. The new rates predict more terminations, both in the three-year select period (based on service) and the ultimate rates (based on age).
- Assumed rates of disability were lowered.
- Assumed percent married for active members was lowered from 85 percent to 75 percent.
- Minor changes to form of payment assumptions were applied.

2020

- The mortality projection scale was changed from Scale MP-2018 to Scale MP-2019.

2019

- The mortality projection scale was changed from Scale MP-2017 to Scale MP-2018.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

6. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

Public Employees Local Government Correctional Service Retirement Plan (Continued)

2018

- The single discount rate was changed from 5.96 percent per annum to 7.50 percent per annum.
- The mortality projection scale was changed from Scale MP-2016 to Scale MP-2017.
- The assumed post-retirement benefit increase was changed from 2.50 percent per year to 2.00 percent per year.
- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Post-retirement benefit increases were changed from 2.50 percent per year with a provision to reduce to 1.00 percent if the funding status declines to a certain level, to 100 percent of the Social Security cost of living adjustment, not less than 1.00 percent and not more than 2.50 percent, beginning January 1, 2019. If the funding status declines to 85 percent for two consecutive years, or 80 percent for one year, the maximum increase will be lowered to 1.50 percent.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

6. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

Public Employees Local Government Correctional Service Retirement Plan (Continued)

2017

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016 and is applied to healthy and disabled members. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the RP-2014 disabled annuitant mortality table (with future mortality improvement according to Scale MP-2016).
- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA load has been changed to 35 percent for vested members and 1.00 percent for non-vested members.
- The single discount rate was changed from 5.31 percent per annum to 5.96 percent per annum.

2016

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.31 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

SUPPLEMENTARY INFORMATION

GOVERNMENTAL FUND

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT B-1

**BUDGETARY COMPARISON SCHEDULE
BUILDING CAPITAL PROJECTS FUND
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,304,255	\$ 1,304,255	\$ 1,430,255	\$ 126,000
Intergovernmental	-	-	1,469	1,469
Charges for services	-	-	48,444	48,444
Miscellaneous	123,564	123,564	128,572	5,008
Total Revenues	\$ 1,427,819	\$ 1,427,819	\$ 1,608,740	\$ 180,921
Expenditures				
Current				
General government	\$ 42,000	\$ 42,000	\$ 11,460	\$ 30,540
Public safety	84,000	84,000	122,643	(38,643)
Culture and recreation	-	-	23,793	(23,793)
Total current	\$ 126,000	\$ 126,000	\$ 157,896	\$ (31,896)
Capital outlay				
General government	205,850	205,850	76,228	129,622
Total Expenditures	\$ 331,850	\$ 331,850	\$ 234,124	\$ 97,726
Excess of Revenues Over (Under) Expenditures	\$ 1,095,969	\$ 1,095,969	\$ 1,374,616	\$ 278,647
Other Financing Sources (Uses)				
Transfers in	-	-	1,182,500	1,182,500
Net Change in Fund Balance	\$ 1,095,969	\$ 1,095,969	\$ 2,557,116	\$ 1,461,147
Fund Balance – January 1, as previously reported	\$ 184,201	\$ 184,201	\$ 184,201	\$ -
Restatement (Note 1.D.16)	1,810,831	1,810,831	1,810,831	-
Fund Balance – January 1, as restated	\$ 1,995,032	\$ 1,995,032	\$ 1,995,032	\$ -
Fund Balance – December 31	\$ 3,091,001	\$ 3,091,001	\$ 4,552,148	\$ 1,461,147

FIDUCIARY FUNDS

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

FIDUCIARY FUNDS

CUSTODIAL FUNDS

Taxes and Penalties Custodial Fund – to account for the collection of taxes and penalties and their payment to the various taxing districts.

State Revenue Custodial Fund – to account for the state’s share of collections and their payment to the state.

Jail Canteen Custodial Fund – to account for inmate deposits, inmate canteen purchases, and fees paid to various agencies.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS – CUSTODIAL FUNDS
DECEMBER 31, 2021**

	Taxes and Penalties	State Revenue	Jail Canteen	Total Custodial Funds
<u>Assets</u>				
Cash and pooled investments	\$ 330,274	\$ 119,497	\$ 17,635	\$ 467,406
Taxes receivable for other governments	192,070	-	-	192,070
Special assessments receivable for other governments	59,615	-	-	59,615
Total Assets	\$ 581,959	\$ 119,497	\$ 17,635	\$ 719,091
<u>Liabilities</u>				
Due to others	-	4,603	-	4,603
<u>Net Position</u>				
Restricted for individuals, organizations, and other governments	\$ 581,959	\$ 114,894	\$ 17,635	\$ 714,488

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT C-2

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS – CUSTODIAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Taxes and Penalties</u>	<u>State Revenue</u>	<u>Jail Canteen</u>	<u>Total Custodial Funds</u>
<u>Additions</u>				
Contributions from individuals	\$ -	\$ -	\$ 55,269	\$ 55,269
Property tax collections for other governments	13,524,513	-	-	13,524,513
Fees collected for state	390,218	677,883	-	1,068,101
Total Additions	\$ 13,914,731	\$ 677,883	\$ 55,269	\$ 14,647,883
<u>Deductions</u>				
Payments of property tax to other governments	\$ 13,043,818	\$ -	\$ -	\$ 13,043,818
Payments to state	1,400,995	629,638	-	2,030,633
Payments to other individuals/entities	163,349	-	53,231	216,580
Total Deductions	\$ 14,608,162	\$ 629,638	\$ 53,231	\$ 15,291,031
Change in Net Position	\$ (693,431)	\$ 48,245	\$ 2,038	\$ (643,148)
Net Position – January 1	1,275,390	66,649	15,597	1,357,636
Net Position – December 31	\$ 581,959	\$ 114,894	\$ 17,635	\$ 714,488

SCHEDULES

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2021**

Appropriations and Shared Revenue

State

Highway users tax	\$	5,445,261
County program aid		652,068
Disparity reduction aid		43,179
Police aid		92,692
Enhanced 911		151,176
Market value credit		262,754
Select Committee on Recycling and the Environment (SCORE)		71,066
Aquatic invasive species aid		56,653
Riparian protection aid		123,059
		123,059

Total appropriations and shared revenue **\$ 6,897,908**

Payments

Local

Payments in lieu of taxes	\$	387,771
		387,771

Grants

State

Minnesota Department/Board/Office of		
Corrections	\$	29,191
Employment and Economic Development		256,250
Natural Resources		115,518
Transportation		1,296,473
Water and Soil Resources		44,994
Veterans Affairs		7,500
Pollution Control Agency		2,850
		2,850

Total state **\$ 1,752,776**

Federal

Department of		
Homeland Security	\$	18,135
Justice		1,469
Transportation		2,003,399
		2,003,399

Total federal **\$ 2,023,003**

Total state and federal grants **\$ 3,775,779**

Total Intergovernmental Revenue **\$ 11,061,458**

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2021**

Federal Grantor Pass-Through Agency Program or Cluster Title	Assistance Listing Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Justice			
Direct			
Bulletproof Vest Partnership Program	16.607	N/A	<u>\$ 1,469</u>
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Highway Planning and Construction Cluster			
Highway Planning and Construction	20.205	00017	\$ 1,832,013
COVID-19 – Highway Planning and Construction	20.205	00017	169,235
(Total Highway Planning and Construction 20.205 \$2,001,248)			
Passed Through City of Worthington, Minnesota			
Highway Safety Cluster			
State and Community Highway Safety	20.600	Not Provided	<u>2,151</u>
Total U.S. Department of Transportation			<u>\$ 2,003,399</u>
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Public Safety			
Emergency Management Performance Grants	97.042	F-EMPG-2020	<u>\$ 18,135</u>
Total Federal Awards			<u>\$ 2,023,003</u>
Totals by Cluster			
Total expenditures for Highway Planning and Construction Cluster			\$ 2,001,248
Total expenditures for Highway Safety Cluster			2,151

The County did not pass any federal awards through to subrecipients during the year ended December 31, 2021.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2021

1. Summary of Significant Accounting Policies

A. 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.

B. 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, 2021. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Cottonwood County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Cottonwood County.

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

2. De Minimis Cost Rate

Cottonwood County has elected not to use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.

MANAGEMENT AND COMPLIANCE SECTION



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

Independent Auditor's Report

Board of County Commissioners
Cottonwood County
Windom, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Cottonwood County, Minnesota, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 19, 2022.

Report on Internal Control Over Financial Reporting

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

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 a combination of deficiencies, in internal control over financial reporting, 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. A significant deficiency is a deficiency, or a 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.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We

identified a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 2021-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cottonwood County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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

In connection with our audit, nothing came to our attention that caused us to believe that Cottonwood County failed to comply with the provisions of the contracting – bid laws, depositories of public funds and public investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Counties*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

Cottonwood County's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the County's response to the internal control finding identified in our audit and described in the accompanying Corrective Action Plan. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

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

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

August 19, 2022



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

Independent Auditor's Report

Board of County Commissioners
Cottonwood County
Windom, Minnesota

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Cottonwood County's compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on Cottonwood County's major federal program for the year ended December 31, 2021. Cottonwood County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, Cottonwood County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2021.

Basis for Opinion on the Major Federal Program

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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Cottonwood County and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of Cottonwood County's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Cottonwood County's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Cottonwood County's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Cottonwood County's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance, we

- exercise professional judgment and maintain professional skepticism throughout the audit;
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Cottonwood County's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances; and
- obtain an understanding of Cottonwood County's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Cottonwood County's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

August 19, 2022

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2021**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **None reported**

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

Federal Awards

Internal control over the major program:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **None reported**

Type of auditor's report issued on compliance for the major federal program: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **No**

The major federal program is:

Assistance Listing Number	Name of Federal Program or Cluster
20.205	Highway Planning and Construction Cluster

The threshold for distinguishing between Types A and B programs was \$750,000.

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2021

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

2021-001 Audit Adjustment

Prior Year Finding Number: 2020-001

Repeat Finding Since: 2019

Type of Finding: Internal Control Over Financial Reporting

Severity of Deficiency: Material Weakness

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

Condition: A material audit adjustment was identified that resulted in significant changes to the County's financial statements.

Context: The inability to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented. The adjustment was found in the audit; however, independent external auditors cannot be considered part of the County's internal control.

Effect: The Road and Bridge Special Revenue Fund required an adjustment to increase due from other governments and deferred inflows of resources – unavailable revenue, and to reduce intergovernmental revenue by \$261,813, \$560,115, and \$298,302, respectively, for additional activity related to highway allotments.

The audit adjustment was reviewed and approved by management and is reflected in the financial statements.

Cause: This activity was overlooked by staff when financial statement information was prepared.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2021**

Recommendation: We recommend 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.

View of Responsible Official: Acknowledge

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.



Board of County Commissioners Cottonwood County

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REPRESENTATION OF COTTONWOOD COUNTY WINDOM, MINNESOTA

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2021

Finding Number: 2021-001

Finding Title: Audit Adjustment

Name of Contact Person Responsible for Corrective Action:

Donna Torkelson, Auditor Treasurer

Corrective Action Planned: Training with the Chief Deputy Auditor Treasurer to develop a spreadsheet tracking the Road and Bridge Special Revenue Fund and to make the year end adjustment for the additional activity related to highway allotments.

Anticipated Completion Date:

December 31, 2022.



Board of County Commissioners Cottonwood County

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REPRESENTATION OF COTTONWOOD COUNTY WINDOM, MINNESOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2021

Finding Number: 2020-001
Year of Finding Origination: 2019
Finding Title: Audit Adjustments

Summary of Condition: Material audit adjustments were identified that resulted in significant changes to the County’s financial statements.

Summary of Corrective Action Previously Reported: Continue reviewing general ledger accounts monthly – training with Chief Deputy Auditor/Treasurer (new position) to help monitor transactions in Auditor/Treasurer and Highway Offices.

Status: Not Corrected. Training will continue with the Chief Deputy Auditor Treasurer to help monitor the transactions in the Road and Bridge, Landfill, and Parks departments.
Was corrective action taken significantly different than the action previously reported?

Yes _____ No X

Finding Number: 2020-002
Year of Finding Origination: 2020
Finding Title: Bank Reconciliation

Summary of Condition: In 2020, the County was not able to fully reconcile the County Cash Book balance to the monthly bank statements. As of December 31, 2020, there was an unreconciled difference of approximately \$40,000 between the bank and County balances.

Summary of Corrective Action Previously Reported: Training with Chief Deputy Auditor/Treasurer (new position) to make sure all reconciliations are completed in a timely manner. Procedures are in place to verify balanced reconciliations. Bank Reconciliations in 2021 have been completed, verified, and balanced.

Status: Fully Corrected. Corrective action was taken.
Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2020-003
Year of Finding Origination: 2020
Finding Title: Activities Allowed and Unallowed, Allowable Costs/Cost Principles, Period of Performance, and Reporting
Program: COVID-19 Coronavirus Relief Fund (Assistance Listing #21.019)

Summary of Condition: The following deficiency was noted in a sample of 22 claims tested:

- A vendor was paid \$305 more than the claim supported.

Additionally, while summarizing the expenditures reported on the November/December Local Government Expenditure Report, the following issues were investigated and found to be deficient:

- \$5,000 was paid to a beneficiary outside the period of performance and subsequently reported twice on the November/December Local Government Expenditure Report.
- \$7,630 was reported on the November/December Local Government Expenditure Report without supporting a claim or other documentation.
- \$65,069 was paid to various vendors, including \$55,000 to a subrecipient, outside the period of performance.

Summary of Corrective Action Previously Reported: Review grants issued in 2021 to ensure compliance with timeliness and documentation guidelines.

Status: Fully Corrected. Corrective action was taken.
Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2020-004
Year of Finding Origination: 2020
Finding Title: Subrecipient Monitoring
Program: COVID-19 Coronavirus Relief Fund (Assistance Listing #21.019)

Summary of Condition: The following exceptions were noted in the sample of three subrecipients tested:

- The County did not have a signed agreement on file for two subrecipients.
- None of the subrecipients were provided with sufficient award information.
- The two subrecipients tested that required monitoring by the County, did not have sufficient monitoring procedures performed over them.

Additionally, the County does not have documented policies and procedures for subrecipient monitoring.

Summary of Corrective Action Previously Reported: Develop documented policies and procedures for subrecipient monitoring for any future grant distributions.

Status: Fully Corrected. Corrective action was taken.
Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2020-005
Year of Finding Origination: 1996
Finding Title: Ditch System Administration

Summary of Condition: The allocation of debt service payments to individual ditch systems in the Ditch Fund was not consistent with the original allocation of the related bond proceeds. Additionally, as of December 31, 2020, the County had individual ditch systems with deficit fund balances.

Summary of Corrective Action Previously Reported: More complete information will be provided and presented to the County Board to assist with assessment for ditch debt. Have a documented plan for length of ditch debt assessments.

Status: Fully Corrected. Corrective action was taken.
Was corrective action taken significantly different than the action previously reported?
Yes _____ No X