

State of Minnesota



Office of the State Auditor

Julie Blaha
State Auditor

**Cottonwood County
Windom, Minnesota**

Year Ended December 31, 2022

Description of the Office of the State Auditor

The Office of the State Auditor (OSA) helps ensure financial integrity and accountability in local government financial activities. The OSA is the constitutional office that oversees more than \$40 billion in annual financial activity by local governments and approximately \$20 billion of federal funding financial activity.

The OSA performs around 90 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office maintains the following seven divisions:

- **Audit Practice:** Helps ensure fiscal integrity by conducting financial and compliance audits of local governments and the federal compliance audit of the State of Minnesota.
- **Constitution:** Connects with the public via external communication, media relations, legislative coordination, and public engagements for the State Auditor.

This division also supports the State Auditor's service on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, the Minnesota Historical Society, and the Rural Finance Authority Board.

- **Government Information:** Collects, analyzes, and shares local government financial data to assist in policy and spending decisions; administers and supports financial tools including the Small Cities and Towns Accounting System (CTAS) software and infrastructure comparison tools.
- **Legal/Special Investigations:** Provides legal analysis and counsel to the OSA and responds to outside inquiries about Minnesota local law relevant to local government finances; investigates local government financial records in response to specific allegations of theft, embezzlement, or unlawful use of public funds or property.
- **Operations:** Ensures the office runs efficiently by providing fiscal management and technology support to the office.
- **Pension:** Analyzes investment, financial, and actuarial reporting for Minnesota's local public pension plans and monitors pension plan operations.
- **Tax Increment Financing (TIF):** Promotes compliance and accountability in local governments' use of tax increment financing through education, reporting, and compliance reviews.

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www.osa.state.mn.us

Cottonwood County Windom, Minnesota

Year Ended December 31, 2022



Office of the State Auditor

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

Cottonwood County Windom, Minnesota

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Cottonwood County Windom, Minnesota

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Introductory Section

Cottonwood County Windom, Minnesota

Organization 2022

Office	Name	Term Expires
Commissioners		
1st District	Larry Anderson ²	December 2026
2nd District	Kevin Stevens	December 2024
3rd District	Donna Gravley ¹	December 2026
4th District	Norman Holmen	December 2024
5th District	Tom Appel	December 2026
Officials		
Elected		
Attorney	Nicholas Anderson	December 2026
Auditor/Treasurer	Donna Torkelson	December 2026
County Recorder	Kathleen Kretsch	December 2026
Sheriff	Jason Purrington	December 2026
Appointed		
Assessor	Gale Bondhus	December 31, 2024
Coordinator	Kelly Thongvivong	Indefinite
Highway Engineer	Nicholas Klisch	May 2026
Veterans Service Officer	Mitchell Chmielewski	Indefinite
Emergency Management Director	Paul Johnson	Indefinite

¹Chair 2022

²Chair 2023

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, 2022, 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, 2022, and the respective changes in financial position, and, where applicable, its 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 – Coronavirus State and Local Fiscal Recovery Funds

As discussed in Note 1 to the financial statements, in 2022, the County identified 2021 expenditures to be applied to the Coronavirus State and Local Fiscal Recovery Funds, which represents a restatement of beginning net position in the business-type activities and Landfill Enterprise Fund. Our opinion is not modified with respect to this matter.

Emphasis of Matter – Restructuring of Funds

As discussed in Note 1 to the financial statements, in 2022, the County reclassified restricted accounts from the Building Capital Projects Fund to the General 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 7, 2023, 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

August 7, 2023

Management's Discussion and Analysis

Cottonwood County Windom, Minnesota

Management's Discussion and Analysis December 31, 2022 (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, 2022. 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 \$86,504,008, of which \$70,373,322 is the investment in capital assets, leaving \$9,839,115 of the governmental activities' net position restricted for specific uses and \$6,291,571 as unrestricted.
- Business-type activities have a total deficit net position of \$60,545, of which \$908,932 is the net investment in capital assets, leaving (\$969,447) as unrestricted.
- Cottonwood County's net position increased by \$4,944,324 for the year ended December 31, 2022. This increase is comprised of an increase of \$6,072,914 in the governmental activities' net position and a net decrease of \$806,536 in the business-type activities' net position, which includes a \$322,054 restatement.
- The net cost of governmental activities was \$7,730,500 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$13,803,414.
- Governmental funds' fund balances increased by \$2,485,450.

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.

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 \$86,443,463. Our analysis in the tables below focuses on the net position and changes in net position of the County’s governmental and business-type activities.

	Net Position			
	2022		Total	2021
Governmental Activities	Business-Type Activities			
Assets				
Current and other assets	\$ 24,985,407	\$ 1,559,025	\$ 26,544,432	\$ 23,591,466
Capital assets	70,373,322	1,441,121	71,814,443	67,379,705
Total Assets	\$ 95,358,729	\$ 3,000,146	\$ 98,358,875	\$ 90,971,171
Deferred Outflows of Resources	\$ 3,667,593	\$ 76,438	\$ 3,744,031	\$ 2,796,257
Liabilities				
Long-term liabilities outstanding	\$ 9,754,994	\$ 3,117,354	\$ 12,872,348	\$ 7,081,873
Other liabilities	2,480,513	7,653	2,488,166	1,840,552
Total Liabilities	\$ 12,235,507	\$ 3,125,007	\$ 15,360,514	\$ 8,922,425
Deferred Inflows of Resources	\$ 286,807	\$ 12,122	\$ 298,929	\$ 3,667,918
Net position				
Net investment in capital assets	\$ 70,373,322	\$ 908,932	\$ 71,282,254	\$ 66,494,909
Restricted	9,839,115	-	9,839,115	8,681,590
Unrestricted	6,291,571	(969,477)	5,322,094	6,000,586
Total Net Position	\$ 86,504,008	\$ (60,545)	\$ 86,443,463	\$ 81,177,085

Net position of the County’s governmental activities was \$86,504,008. 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 \$6,291,571 at the end of the year. The net position of business-type activities was (\$60,545).

Changes in Net Position

	2022			2021
	Governmental Activities	Business-Type Activities	Total	
Revenues				
Program revenues				
Fees, charges, and others	\$ 1,994,147	\$ 814,755	\$ 2,808,902	\$ 2,720,011
Operating grants and contributions	7,123,393	-	7,123,393	6,706,377
Capital grants and contributions	2,333,053	-	2,333,053	4,357,936
General revenues				
Property taxes	11,220,833	335	11,221,168	11,141,229
Other taxes	827,387	-	827,387	750,548
Grants, gifts, and miscellaneous	1,752,992	(179,091)	1,573,901	2,077,387
Total Revenues	\$ 25,251,805	\$ 635,999	\$ 25,887,804	\$ 27,753,488
Expenses				
General government	\$ 4,046,958	\$ -	\$ 4,046,958	\$ 3,993,709
Public safety	3,746,458	-	3,746,458	2,814,550
Highways and streets	6,331,074	-	6,331,074	5,223,115
Sanitation	414,817	-	414,817	390,114
Health and human services	3,253,705	-	3,253,705	2,867,610
Culture and recreation	359,260	-	359,260	391,799
Conservation of natural resources	1,010,274	-	1,010,274	1,278,833
Economic development	-	-	-	257,000
Interest	18,547	-	18,547	12,699
Landfill	-	1,762,387	1,762,387	1,627,980
Total Expenses	\$ 19,181,093	\$ 1,762,387	\$ 20,943,480	\$ 18,857,409
Increase (decrease) before transfers	\$ 6,070,712	\$ (1,126,388)	\$ 4,944,324	\$ 8,896,079
Transfers	2,202	(2,202)	-	-
Increase (decrease) in Net Position	\$ 6,072,914	\$ (1,128,590)	\$ 4,944,324	\$ 8,896,079
Net Position – January 1, as restated	80,431,094	1,068,045	81,499,139	72,281,066
Net Position – December 31	\$ 86,504,008	\$ (60,545)	\$ 86,443,463	\$ 81,177,085

The County's activities increased net position by 6.1 percent (\$86,443,463 for 2022 compared to \$81,177,085 for 2021).

Total County Revenue

Governmental Activities

Revenues for the County's governmental activities were \$25,251,805, while total expenses were \$19,181,093 and transfers in were \$2,202. This reflects a \$6,072,914 increase in net position for the year ended December 31, 2022.

Business-Type Activities

Revenues of the County's business-type activities were \$635,999, expenses were \$1,762,387, and transfers out were \$2,202. After a restatement of \$322,054, this reflects a net decrease of \$806,536 in net position for the year ending December 31, 2022.

Governmental Activities' Expenses

The cost of the County's governmental activities this year was \$19,181,093. 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 \$13,803,414 because some of the cost was paid by those who directly benefited from the programs (\$1,994,147) or by other governments and organizations that subsidized certain programs with grants and contributions (\$9,456,446).

The following 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.

	2022	
	Total Cost of Services	Net Cost of Services
Highways and streets	\$ 6,331,074	\$ 2,700,607
General government	4,046,958	(3,739,531)
Public safety	3,746,458	(3,240,136)
Health and human services	3,253,705	(3,178,192)
Conservation of natural resources	1,010,274	(134,624)
All others	792,624	(138,624)
Totals	<u>\$ 19,181,093</u>	<u>\$ (7,730,500)</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 \$18,678,046, which is above last year's total of \$16,192,596. The governmental funds' change in fund balance (an increase of \$2,485,450 for 2022) represents a 15.4 percent increase in governmental fund balances.

The General Fund showed a net increase in fund balance of \$1,223,340, after restatement. The overall increase in fund balance resulted from more revenue than expected in 2022, with the largest variances being special assessments, intergovernmental revenue, and charges for services. In addition, conservation of natural resources expenditures were less than expected.

The Road and Bridge Special Revenue Fund's fund balance increased \$685,614 in 2022. The increase is a result of planned construction that was not expended but was levied in 2022 and less equipment and maintenance shop expenditures than expected in 2022.

In 2022, the Ditch Special Revenue Fund showed an increase in fund balance of \$4,829.

The Building Capital Projects Fund had a net increase in fund balance of \$571,667 in 2022, after restatement of \$489,566. The increase is due to long-term capital outlay projects that were not expended in 2022 but were included in the 2022 levy.

General Fund Budgetary Highlights

Budget amendments were made for 2022.

Capital Assets and Debt Administration

Capital Assets

At the end of 2022, the County had \$71,814,443 invested in a broad range of capital assets (net of accumulated depreciation), including land, buildings, highways and streets, and equipment. This amount represents a net increase of \$4,434,738, or 6.6 percent, over last year.

	2022			2021
	Governmental Activities	Business-Type Activities	Total	
Land	\$ 662,310	\$ 249,586	\$ 911,896	\$ 701,896
Right-of-way	858,459	-	858,459	858,459
Construction in progress	902,089	-	902,089	9,953
Buildings	3,032,275	20,912	3,053,187	3,095,453
Land improvements	-	975,559	975,559	1,052,097
Machinery and equipment	2,746,142	195,064	2,941,206	3,048,886
Infrastructure	62,172,047	-	62,172,047	58,612,961
Totals	\$ 70,373,322	\$ 1,441,121	\$ 71,814,443	\$ 67,379,705

Additional information on the County's capital assets can be found in Note 3 in the notes to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the County had total outstanding debt of \$1,738,723 versus \$1,645,236 last year, an increase of 5.7 percent over last year.

	Outstanding Debt	
	2022	2021
Loans payable	\$ 1,738,723	\$ 1,645,236

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 (\$3,919,367,800) in the County. The County's outstanding net debt (\$1,738,723) is significantly below this state-imposed limit (\$117,581,034).

Additional information on the County's long-term debt can be found in Note 3 in the notes to the financial statements.

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 2023 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 2023 are budgeted to decrease slightly by 2.23 percent from 2022.

- Property taxes levied have increased 4.50 percent for 2023.

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
December 31, 2022**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Cash and pooled investments	\$ 19,708,677	\$ 204,026	\$ 19,912,703
Receivables	3,956,190	58,945	4,015,135
Internal balances	532,189	(532,189)	-
Inventories	671,351	-	671,351
Prepaid items	117,000	1,958	118,958
Restricted assets			
Cash and pooled investments	-	1,826,285	1,826,285
Capital assets			
Non-depreciable	2,422,858	249,586	2,672,444
Depreciable – net of accumulated depreciation	67,950,464	1,191,535	69,141,999
Total Assets	\$ 95,358,729	\$ 3,000,146	\$ 98,358,875
<u>Deferred Outflows of Resources</u>			
Deferred other postemployment benefits outflows	\$ 66,150	\$ 1,803	\$ 67,953
Deferred pension outflows	3,601,443	74,635	3,676,078
Total Deferred Outflows of Resources	\$ 3,667,593	\$ 76,438	\$ 3,744,031
<u>Liabilities</u>			
Accounts payable	\$ 344,750	\$ 612	\$ 345,362
Salaries payable	234,739	7,041	241,780
Unearned revenue	1,901,024	-	1,901,024
Long-term liabilities			
Due within one year	220,120	3,343	223,463
Due in more than one year	2,170,487	2,898,811	5,069,298
Other postemployment benefits liability	295,639	9,279	304,918
Net pension liability	7,068,748	205,921	7,274,669
Total Liabilities	\$ 12,235,507	\$ 3,125,007	\$ 15,360,514
<u>Deferred Inflows of Resources</u>			
Deferred other postemployment benefits inflows	\$ 68,034	\$ 2,604	\$ 70,638
Deferred pension inflows	218,773	9,518	228,291
Total Deferred Inflows of Resources	\$ 286,807	\$ 12,122	\$ 298,929

**Cottonwood County
Windom, Minnesota**

**Exhibit 1
(Continued)**

**Statement of Net Position
December 31, 2022**

	Governmental Activities	Business-Type Activities	Total
<u>Net Position</u>			
Net investment in capital assets	\$ 70,373,322	\$ 908,932	\$ 71,282,254
Restricted for			
General government	277,076	-	277,076
Public safety	382,615	-	382,615
Highways and streets	1,735,456	-	1,735,456
Conservation of natural resources	2,478,242	-	2,478,242
Economic development	102,070	-	102,070
Opioid remediation activities	75,513	-	75,513
Capital projects	4,788,143	-	4,788,143
Unrestricted	6,291,571	(969,477)	5,322,094
Total Net Position	\$ 86,504,008	\$ (60,545)	\$ 86,443,463

**Cottonwood County
Windom, Minnesota**

**Statement of Activities
For the Year Ended December 31, 2022**

<u>Functions/Programs</u>	Expenses	Fees, Charges, Fines, and Other
Governmental activities		
General government	\$ 4,046,958	\$ 299,927
Public safety	3,746,458	168,339
Highways and streets	6,331,074	437,042
Sanitation	414,817	364,226
Health and human services	3,253,705	-
Culture and recreation	359,260	99,650
Conservation of natural resources	1,010,274	624,963
Interest	18,547	-
	\$ 19,181,093	\$ 1,994,147
Business-type activities		
Landfill	1,762,387	814,755
	\$ 20,943,480	\$ 2,808,902

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 – January 1, as previously reported
Restatement (Note 1)

Net Position – January 1, as restated

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	\$ -	\$ (3,739,531)	\$ -	\$ (3,739,531)
337,983	-	(3,240,136)	-	(3,240,136)
6,261,586	2,333,053	2,700,607	-	2,700,607
72,440	-	21,849	-	21,849
75,513	-	(3,178,192)	-	(3,178,192)
117,684	-	(141,926)	-	(141,926)
250,687	-	(134,624)	-	(134,624)
-	-	(18,547)	-	(18,547)
\$ 7,123,393	\$ 2,333,053	\$ (7,730,500)	\$ -	\$ (7,730,500)
-	-	-	(947,632)	(947,632)
\$ 7,123,393	\$ 2,333,053	\$ (7,730,500)	\$ (947,632)	\$ (8,678,132)
		\$ 11,220,833	\$ 335	\$ 11,221,168
		90,070	-	90,070
		13,246	-	13,246
		135,464	-	135,464
		588,607	-	588,607
		993,803	-	993,803
		320,122	-	320,122
		217,774	(179,091)	38,683
		188,985	-	188,985
		32,308	-	32,308
		2,202	(2,202)	-
		\$ 13,803,414	\$ (180,958)	\$ 13,622,456
		\$ 6,072,914	\$ (1,128,590)	\$ 4,944,324
		\$ 80,431,094	\$ 745,991	\$ 81,177,085
		-	322,054	322,054
		\$ 80,431,094	\$ 1,068,045	\$ 81,499,139
		\$ 86,504,008	\$ (60,545)	\$ 86,443,463

Fund Financial Statements

Governmental Funds

**Cottonwood County
Windom, Minnesota**

Exhibit 3

**Balance Sheet
Governmental Funds
December 31, 2022**

	<u>General</u>	<u>Road and Bridge</u>	<u>Ditch</u>	<u>Building</u>	<u>Total</u>
<u>Assets</u>					
Cash and pooled investments	\$ 9,637,917	\$ 4,121,291	\$ 825,654	\$ 5,123,815	\$ 19,708,677
Taxes receivable – delinquent	85,368	-	-	-	85,368
Special assessments receivable					
Delinquent	34,195	-	142	-	34,337
Noncurrent	1,433,957	-	-	-	1,433,957
Accrued interest receivable	120,215	-	-	-	120,215
Loans receivable	97,147	-	-	-	97,147
Due from other governments	-	2,185,166	-	-	2,185,166
Inventories	-	671,351	-	-	671,351
Prepaid items	96,581	20,419	-	-	117,000
Advance to other funds	1,452,725	-	-	-	1,452,725
Total Assets	<u>\$ 12,958,105</u>	<u>\$ 6,998,227</u>	<u>\$ 825,796</u>	<u>\$ 5,123,815</u>	<u>\$ 25,905,943</u>
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 204,603	\$ 39,858	\$ 100,289	\$ -	\$ 344,750
Salaries payable	169,034	65,705	-	-	234,739
Unearned revenue	1,901,024	-	-	-	1,901,024
Advance from other funds	-	-	920,536	-	920,536
Total Liabilities	<u>\$ 2,274,661</u>	<u>\$ 105,563</u>	<u>\$ 1,020,825</u>	<u>\$ -</u>	<u>\$ 3,401,049</u>
Deferred Inflows of Resources					
Unavailable revenue	<u>\$ 1,641,540</u>	<u>\$ 2,185,166</u>	<u>\$ 142</u>	<u>\$ -</u>	<u>\$ 3,826,848</u>

**Cottonwood County
Windom, Minnesota**

**Exhibit 3
(Continued)**

**Balance Sheet
Governmental Funds
December 31, 2022**

	<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					
Prepaid items	\$ 96,581	\$ 20,419	\$ -	\$ -	\$ 117,000
Long-term loans receivable	97,147	-	-	-	97,147
Advance to other funds	1,452,725	-	-	-	1,452,725
Inventories	-	671,351	-	-	671,351
Restricted for					
Law library	56,814	-	-	-	56,814
Recorder's technology fund	107,606	-	-	-	107,606
Recorder's compliance fund	101,934	-	-	-	101,934
Enhanced 911	192,608	-	-	-	192,608
Sheriff drug contingency	1,682	-	-	-	1,682
Permit to carry administration	141,434	-	-	-	141,434
Sheriff forfeitures	46,891	-	-	-	46,891
Attorney forfeitures	10,522	-	-	-	10,522
Attorney – prostitution prosecution, training, and education	200	-	-	-	200
Septic/sewer loan repayments	830,077	-	-	-	830,077
Land restoration	523,887	-	-	-	523,887
Aquatic invasive species program	168,008	-	-	-	168,008
Buffer administration	491,454	-	-	-	491,454
Low-interest small business loans	102,070	-	-	-	102,070
Opioid remediation	75,513	-	-	-	75,513
Highway construction	-	973,058	-	-	973,058
Ditch maintenance and repairs	-	-	795,753	-	795,753
County buildings	-	-	-	4,788,143	4,788,143
Assigned for					
Road and bridge	-	3,042,670	-	-	3,042,670
Capital outlay	-	-	-	335,672	335,672
Unassigned	4,544,751	-	(990,924)	-	3,553,827
Total Fund Balances	\$ 9,041,904	\$ 4,707,498	\$ (195,171)	\$ 5,123,815	\$ 18,678,046
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 12,958,105	\$ 6,998,227	\$ 825,796	\$ 5,123,815	\$ 25,905,943

**Cottonwood County
Windom, Minnesota**

Exhibit 4

**Reconciliation of Governmental Funds Balance Sheet to
the Government-Wide Statement of Net Position—Governmental Activities
December 31, 2022**

Fund balance – total governmental funds (Exhibit 3)		\$ 18,678,046
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.		70,373,322
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.		3,826,848
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Loans payable	\$ (1,738,723)	
Compensated absences	(651,884)	
Other postemployment benefits liability	(295,639)	
Net pension liability	<u>(7,068,748)</u>	(9,754,994)
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		66,150
Deferred other postemployment benefits inflows		(68,034)
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		3,601,443
Deferred pension inflows		<u>(218,773)</u>
Net Position of Governmental Activities (Exhibit 1)		<u>\$ 86,504,008</u>

**Cottonwood County
Windom, Minnesota**

Exhibit 5

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2022**

	<u>General</u>	<u>Road and Bridge</u>	<u>Ditch</u>	<u>Building</u>	<u>Total</u>
Revenues					
Taxes	\$ 8,514,917	\$ 2,360,396	\$ -	\$ 1,149,170	\$ 12,024,483
Special assessments	310,440	-	396,699	-	707,139
Licenses and permits	24,244	16,750	-	-	40,994
Intergovernmental	2,074,021	8,605,175	-	-	10,679,196
Settlements	75,513	-	-	-	75,513
Charges for services	646,089	285,469	-	-	931,558
Fines and forfeits	11,873	-	-	-	11,873
Investment earnings	129,754	-	-	-	129,754
Miscellaneous	344,780	134,823	5,907	129,742	615,252
Total Revenues	\$ 12,131,631	\$ 11,402,613	\$ 402,606	\$ 1,278,912	\$ 25,215,762
Expenditures					
Current					
General government	\$ 3,787,980	\$ -	\$ -	\$ 22,904	\$ 3,810,884
Public safety	3,322,175	-	-	-	3,322,175
Highways and streets	-	10,157,645	-	-	10,157,645
Sanitation	540,105	-	-	-	540,105
Health and human services	15,966	-	-	-	15,966
Culture and recreation	349,416	-	-	-	349,416
Conservation of natural resources	511,088	-	480,002	-	991,090
Capital outlay					
General government	-	-	-	194,775	194,775
Intergovernmental					
Highways and streets	-	650,259	-	-	650,259
Health and human services	2,851,644	-	-	-	2,851,644
Debt service					
Principal	160,838	-	-	-	160,838
Interest	3,501	-	15,046	-	18,547
Total Expenditures	\$ 11,542,713	\$ 10,807,904	\$ 495,048	\$ 217,679	\$ 23,063,344
Excess of Revenues Over (Under) Expenditures	\$ 588,918	\$ 594,709	\$ (92,442)	\$ 1,061,233	\$ 2,152,418

**Cottonwood County
Windom, Minnesota**

**Exhibit 5
(Continued)**

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2022**

	<u>General</u>	<u>Road and Bridge</u>	<u>Ditch</u>	<u>Building</u>	<u>Total</u>
Other Financing Sources (Uses)					
Transfers in	\$ 15,089	\$ -	\$ 112,360	\$ -	\$ 127,449
Transfers out	(124,558)	-	(15,089)	-	(139,647)
Loans issued	254,325	-	-	-	254,325
Proceeds from sale of capital assets	-	32,308	-	-	32,308
Total Other Financing Sources (Uses)	<u>\$ 144,856</u>	<u>\$ 32,308</u>	<u>\$ 97,271</u>	<u>\$ -</u>	<u>\$ 274,435</u>
Net Change in Fund Balance	<u>\$ 733,774</u>	<u>\$ 627,017</u>	<u>\$ 4,829</u>	<u>\$ 1,061,233</u>	<u>\$ 2,426,853</u>
Fund Balance – January 1, as previously reported	\$ 7,818,564	\$ 4,021,884	\$ (200,000)	\$ 4,552,148	\$ 16,192,596
Restatement (Note 1)	489,566	-	-	(489,566)	-
Fund Balance – January 1, as restated	<u>\$ 8,308,130</u>	<u>\$ 4,021,884</u>	<u>\$ (200,000)</u>	<u>\$ 4,062,582</u>	<u>\$ 16,192,596</u>
Increase (decrease) in inventories	<u>\$ -</u>	<u>\$ 58,597</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,597</u>
Fund Balance – December 31	<u>\$ 9,041,904</u>	<u>\$ 4,707,498</u>	<u>\$ (195,171)</u>	<u>\$ 5,123,815</u>	<u>\$ 18,678,046</u>

**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, 2022**

Net change in fund balance – total governmental funds (Exhibit 5) \$ 2,426,853

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	\$ 3,826,848	
Unavailable revenue – January 1	<u>(4,207,667)</u>	(380,819)

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

Expenditures for general capital assets and infrastructure	\$ 7,098,164	
Current year depreciation	<u>(2,442,207)</u>	4,655,957

The net effect of various miscellaneous transactions involving capital assets (i.e., sales and transfers) is to decrease net position. (37,113)

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	\$ (254,325)	
Repayment of debt principal – loan payments	<u>160,838</u>	(93,487)

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	\$ 58,597	
Change in deferred other postemployment benefits outflows	(17,720)	
Change in deferred pension outflows	998,919	
Change in compensated absences	1,344	
Change in other postemployment benefits liability	(28,361)	
Change in net pension asset	(51,814)	
Change in net pension liability	(4,727,125)	
Change in deferred other postemployment benefits inflows	10,647	
Change in deferred pension inflows	<u>3,257,036</u>	<u>(498,477)</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ 6,072,914

Proprietary Fund

**Cottonwood County
Windom, Minnesota**

Exhibit 7

**Statement of Fund Net Position
Proprietary Fund
December 31, 2022**

	Landfill Enterprise Fund
<u>Assets</u>	
Current assets	
Cash and pooled investments	\$ 204,026
Accounts receivable	58,945
Prepaid items	1,958
Restricted assets	
Cash and pooled investments	1,826,285
Total current assets	\$ 2,091,214
Noncurrent assets	
Capital assets	
Nondepreciable	\$ 249,586
Depreciable – net	1,191,535
Total noncurrent assets	\$ 1,441,121
Total Assets	\$ 3,532,335
<u>Deferred Outflows of Resources</u>	
Deferred other postemployment benefits outflows	\$ 1,803
Deferred pension outflows	74,635
Total Deferred Outflows of Resources	\$ 76,438

**Cottonwood County
Windom, Minnesota**

**Exhibit 7
(Continued)**

**Statement of Fund Net Position
Proprietary Fund
December 31, 2022**

	<u>Landfill Enterprise Fund</u>
<u>Liabilities</u>	
Current liabilities	
Accounts payable	\$ 612
Salaries payable	7,041
Compensated absences payable – current	<u>3,343</u>
Total current liabilities	<u>\$ 10,996</u>
Noncurrent liabilities	
Advance from other funds	\$ 532,189
Compensated absences payable – long-term	30,326
Estimated liability for landfill closure/postclosure care	2,868,485
Other postemployment benefits liability	9,279
Net pension liability	<u>205,921</u>
Total noncurrent liabilities	<u>\$ 3,646,200</u>
Total Liabilities	<u>\$ 3,657,196</u>
<u>Deferred Inflows of Resources</u>	
Deferred other postemployment benefits inflows	\$ 2,604
Deferred pension inflows	<u>9,518</u>
Total Deferred Inflows of Resources	<u>\$ 12,122</u>
<u>Net Position</u>	
Net investment in capital assets	\$ 908,932
Unrestricted	<u>(969,477)</u>
Total Net Position	<u>\$ (60,545)</u>

**Cottonwood County
Windom, Minnesota**

Exhibit 8

**Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the Year Ended December 31, 2022**

	Landfill Enterprise Fund
Operating Revenues	
Charges for services	\$ 787,560
Licenses and permits	203
Miscellaneous	27,327
Total Operating Revenues	\$ 815,090
Operating Expenses	
Personal services	\$ 266,646
Professional services	82,984
Other services and charges	366,901
Utilities	9,641
Depreciation	169,706
Landfill closure and postclosure care costs	852,254
Total Operating Expenses	\$ 1,748,132
Operating Income (Loss)	\$ (933,042)
Nonoperating Revenues (Expenses)	
Investment income (loss)	\$ (179,091)
Interest expense	(14,255)
Loss on the disposal of property	(14,400)
Total Nonoperating Revenues (Expenses)	\$ (207,746)
Income (Loss) Before Transfers	\$ (1,140,788)
Transfers in	12,198
Change in Net Position	\$ (1,128,590)
Net Position – January 1, as previously reported	\$ 745,991
Restatement (Note 1)	322,054
Net Position – January 1, as restated	\$ 1,068,045
Net Position – December 31	\$ (60,545)

**Cottonwood County
Windom, Minnesota**

Exhibit 9

**Statement of Cash Flows
Proprietary Fund
For the Year Ended December 31, 2022
Increase (Decrease) in Cash and Cash Equivalents**

	Landfill Enterprise Fund
Cash Flows from Operating Activities	
Receipts from customers and users	\$ 808,264
Payments to suppliers	(504,714)
Payments to employees	(247,229)
	\$ 56,321
Cash Flows from Noncapital Financing Activities	
Transfers in	\$ 12,198
	\$ (394,066)
Cash Flows from Capital and Related Financing Activities	
Advance from other funds	\$ (394,066)
	\$ (179,091)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (504,638)
Cash and Cash Equivalents – January 1, as restated	2,534,949
Cash and Cash Equivalents – December 31	\$ 2,030,311
 Reconciliation of Cash and Cash Equivalents to the Statement of Net Position – Exhibit 7	
Cash and pooled investments	\$ 204,026
Restricted cash and pooled investments	1,826,285
	\$ 2,030,311
Total Cash and Cash Equivalents – December 31	\$ 2,030,311

**Cottonwood County
Windom, Minnesota**

**Exhibit 9
(Continued)**

**Statement of Cash Flows
Proprietary Fund
For the Year Ended December 31, 2022
Increase (Decrease) in Cash and Cash Equivalents**

	Landfill Enterprise Fund
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	\$ (933,042)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 169,706
Landfill closure and postclosure care costs	852,254
(Increase) decrease in accounts receivable	(6,826)
(Increase) decrease in prepaid assets	(1,958)
(Increase) decrease in deferred other postemployment benefits outflows	738
(Increase) decrease in deferred pension outflows	32,687
Increase (decrease) in accounts payable	(45,188)
Increase (decrease) in salaries payable	(1,336)
Increase (decrease) in compensated absences payable	3,062
Increase (decrease) in other postemployment benefits liability	1,182
Increase (decrease) in net pension liability	86,348
Increase (decrease) in deferred other postemployment benefits inflows	(443)
Increase (decrease) in deferred pension inflows	(100,863)
Total adjustments	\$ 989,363
Net Cash Provided by (Used in) Operating Activities	\$ 56,321
Noncash Investing, Capital, and Financing Activities	
Net book value of asset transfer to the general fund	\$ 14,400

Fiduciary Funds

**Cottonwood County
Windom, Minnesota**

Exhibit 10

**Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2022**

	<u>Custodial Funds</u>
<u>Assets</u>	
Cash and pooled investments	\$ 648,300
Taxes receivable for other governments	216,495
Special assessments receivable for other governments	<u>53,240</u>
Total Assets	\$ <u>918,035</u>
<u>Liabilities</u>	
Due to other governments	\$ <u>428,201</u>
<u>Deferred Inflows of Resources</u>	
Prepaid taxes	\$ <u>63,666</u>
<u>Net Position</u>	
Restricted for individuals, organizations, and other governments	\$ <u><u>426,168</u></u>

**Cottonwood County
Windom, Minnesota**

Exhibit 11

**Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended December 31, 2022**

<u>Additions</u>	<u>Custodial Funds</u>
Contributions from individuals	\$ 57,884
Property tax collections for other governments	14,616,388
Fees collected for state	517,953
Miscellaneous	<u>90,122</u>
Total Additions	\$ 15,282,347
<u>Deductions</u>	
Payments of property tax to other governments	\$ 14,861,052
Payments to state	609,476
Payments to other individuals/entities	<u>100,139</u>
Total Deductions	\$ 15,570,667
Change in Net Position	\$ (288,320)
Net Position – January 1	<u>714,488</u>
Net Position – December 31	<u><u>\$ 426,168</u></u>

Cottonwood County Windom, Minnesota

Notes to the Financial Statements As of and for the Year Ended December 31, 2022

Note 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, 2022. 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.

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 and jointly-governed organizations as described in Note 5 – Summary of Significant Contingencies and Other Items.

Basic Financial Statements

Government-Wide Statements

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

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

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Fund Financial Statements

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

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

The County reports the following major governmental funds:

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

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

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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 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.

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

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.

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, 2022. 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 2022 were \$129,754.

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.

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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.

Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out method. Inventory in the Road and Bridge Special Revenue Fund consists of expendable supplies held for consumption. The cost of individual inventory items is recorded as an expenditure at the time the item is purchased. Inventories at the government-wide level are reported as expenses when consumed.

Inventories, as reported in the fund financial statements, are equally offset by nonspendable fund balance, which indicates that they do not constitute available spendable resources.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as an expenditure/expense when consumed rather than when purchased.

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.

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.

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

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

Estimated Useful Lives of Capital Assets

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

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.

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.

Unearned Revenue

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

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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.

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 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.

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.

Classification of Net Position

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

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

Restricted – the 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 net investment in capital assets.

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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.

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.

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

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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.

Prior Period Restatement – Coronavirus State and Local Fiscal Recovery Funds

During the current year, Cottonwood County has identified \$322,054 of 2021 expenditures to be applied to the Coronavirus State and Local Fiscal Recovery Funds, assistance listing 21.027. Had these expenditures been identified during 2021, the Landfill Enterprise Fund, and Statement of Net Position unearned revenue would have decreased, and intergovernmental revenue would have increased by this amount. Beginning net position has been restated in the current year to reflect this subsequent change.

Prior Period Adjustment – Restructuring of Funds

During the year ended December 31, 2022, Cottonwood County re-evaluated its restricted accounts and determined that reporting the activities in the General Fund rather than the Capital Projects Fund would be beneficial for financial statement users.

The following balances as of January 1, 2022, were adjusted to reflect this change.

	Prior Period Adjustment	
	General Fund	Building Capital Projects Fund
Fund balance January 1, 2022, as previously reported	\$ 7,818,564	\$ 4,552,148
Reclassification of restricted fund balance	489,566	(489,566)
Fund Balance, January 1, 2022, as restated	\$ 8,308,130	\$ 4,062,582

Note 2 – Stewardship, Compliance, and Accountability

Deficit Net Position

The Landfill Enterprise Fund had negative net position of \$60,545 as of December 31, 2022. The deficit will be eliminated with future revenues and an increase in the investment value held by the fund.

Deficit Fund Balance

The Ditch Special Revenue Fund had a negative fund balance of \$195,171 as of December 31, 2022; 12 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:

Individual Ditch System Fund Balance	
75 ditches with positive fund balances	\$ 795,753
12 ditches with deficit fund balances	(990,924)
Total Fund Balance	\$ (195,171)

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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, 2022:

	Expenditures	Final Budget	Excess
Building Capital Projects Fund	\$ 217,679	\$ 188,250	\$ 29,429

The expenditures in excess of budget were funded by available fund balance.

Note 3 – Detailed Notes

Assets

Deposits and Investments

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

Reconciliation of the County’s Total Cash and Investments to the Basic Financial Statements as of December 31, 2022		
Government-wide statement of net position		
Governmental activities		
Cash and pooled investments	\$	19,708,677
Business-type activities		
Cash and pooled investments		204,026
Cash and pooled Investments – restricted assets		1,826,285
Statement of fiduciary net position		
Custodial funds		
Cash and pooled investments		648,300
Total Cash and Investments	\$	22,387,288

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 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.

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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, 2022, the County's deposits were not exposed to custodial credit risk.

Investments

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

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

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At December 31, 2022, the County had the following recurring fair value measurements.

Recurring Fair Value Measurements as of December 31, 2022

	December 31, 2022	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	\$ 1,292,014	\$ -	\$ 1,292,014	\$ -
Negotiable certificates of deposit	2,459,802	-	2,459,802	-
Total Investments Included in the Fair Value Hierarchy	<u>\$ 3,751,816</u>	<u>\$ -</u>	<u>\$ 3,751,816</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.

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, 2022, none of the County's investments were subject to custodial credit risk.

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Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's policy that U.S. Treasury securities, U.S. agency securities, and obligations backed by U.S. Treasury and/or U.S. agency securities may be held without limit.

The following table presents the County's cash and investment balances at December 31, 2022, and information relating to potential investment risks:

Cash and Investments and Information Relating to Potential Investment Risk as of December 31, 2022

Investment Type	Credit Risk		Concentration	Interest	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Rate Risk Maturity Date	
Federal Home Loan Bank bond ¹	AA+	S&P		11/18/2024	\$ 94,378
Federal Home Loan Bank bond ¹	AA+	S&P		02/26/2026	133,285
Federal Home Loan Bank bond ¹	AA+	S&P		03/17/2026	202,995
Federal Home Loan Bank bond ¹	AA+	S&P		03/17/2026	180,440
Federal Home Loan Bank bond ¹	AA+	S&P		06/30/2026	111,404
Total Federal Home Loan Bank bonds			19.3%		<u>\$ 722,502</u>
School District – GO Bond	Aa3	Moody's		02/01/2025	\$ 265,897
School District – GO Bond	AA	S&P		08/01/2026	303,615
Total School District – GO Bonds			15.2%		<u>\$ 569,512</u>
Negotiable certificates of deposit with brokers	N/A	N/A	N/A	Various	<u>\$ 2,459,802</u>
Total investments					<u>\$ 3,751,816</u>
Checking					17,508,688
Savings					1,025,434
Petty cash and change funds					4,350
Certificates of deposit					97,000
Total Cash and Investments					<u><u>\$ 22,387,288</u></u>

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

N/A – Not Applicable

S&P – Standard & Poor's

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Receivables

Receivables as of December 31, 2022, for the County's governmental activities and business-type activities are as follows:

Receivables as of December 31, 2022

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 85,368	\$ -
Special assessments – delinquent	34,337	-
Special assessments – noncurrent	1,433,957	1,433,957
Accrued interest	120,215	-
Loans	97,147	93,237
Due from other governments	2,185,166	-
Total	\$ 3,956,190	\$ 1,527,194
Business-Type Activities		
Accounts	\$ 58,945	\$ -

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, 2022, the outstanding loan balance was \$97,147.

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Capital Assets

Capital asset activity for the year ended December 31, 2022, was as follows:

Governmental Activities

Changes in Capital Assets for the Year Ended December 31, 2022

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 452,310	\$ 210,000	\$ -	\$ 662,310
Right-of-way	858,459	-	-	858,459
Construction in progress	9,953	902,089	9,953	902,089
Total capital assets not depreciated	<u>\$ 1,320,722</u>	<u>\$ 1,112,089</u>	<u>\$ 9,953</u>	<u>\$ 2,422,858</u>
Capital assets depreciated				
Buildings	\$ 6,379,349	\$ 100,792	\$ -	\$ 6,480,141
Machinery and equipment	7,167,175	539,165	246,408	7,459,932
Infrastructure	86,496,530	5,356,071	-	91,852,601
Total capital assets depreciated	<u>\$ 100,043,054</u>	<u>\$ 5,996,028</u>	<u>\$ 246,408</u>	<u>\$ 105,792,674</u>
Less: accumulated depreciation for				
Buildings	\$ 3,305,776	\$ 142,090	\$ -	\$ 3,447,866
Machinery and equipment	4,419,953	503,132	209,295	4,713,790
Infrastructure	27,883,569	1,796,985	-	29,680,554
Total accumulated depreciation	<u>\$ 35,609,298</u>	<u>\$ 2,442,207</u>	<u>\$ 209,295</u>	<u>\$ 37,842,210</u>
Total capital assets depreciated, net	<u>\$ 64,433,756</u>	<u>\$ 3,553,821</u>	<u>\$ 37,113</u>	<u>\$ 67,950,464</u>
Governmental Activities Capital Assets, Net	<u>\$ 65,754,478</u>	<u>\$ 4,665,910</u>	<u>\$ 47,066</u>	<u>\$ 70,373,322</u>

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Business-Type Activities

Changes in Capital Assets for the Year Ended December 31, 2022

	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	990,974	-	48,000	942,974
Total capital assets depreciated	\$ 4,554,859	\$ -	\$ 48,000	\$ 4,506,859
Less: accumulated depreciation for				
Buildings	\$ 30,851	\$ 968	\$ -	\$ 31,819
Land improvements	2,459,057	76,538	-	2,535,595
Machinery and equipment	689,310	92,200	33,600	747,910
Total accumulated depreciation	\$ 3,179,218	\$ 169,706	\$ 33,600	\$ 3,315,324
Total capital assets depreciated, net	\$ 1,375,641	\$ (169,706)	\$ 14,400	\$ 1,191,535
Business-Type Activities Capital Assets, Net	\$ 1,625,227	\$ (169,706)	\$ 14,400	\$ 1,441,121

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

Depreciation Expense Charged to Functions/Programs

Governmental Activities	
General government	\$ 135,060
Public safety	68,842
Highways and streets, including depreciation of infrastructure assets	2,210,972
Conservation of natural resources	2,232
Culture and recreation	4,945
Sanitation	20,156
Total Depreciation Expense – Governmental Activities	<u>\$ 2,442,207</u>
Business-Type Activities	
Landfill	<u>\$ 169,706</u>

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Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2022, is as follows:

Advances To/From Other Funds

Advances To/From Other Funds		
Receivable Fund	Payable Fund	Amount
General	Ditch Special Revenue	\$ 920,536
	Landfill Enterprise	532,189
Total Advances To/From Other Funds		\$ 1,452,725

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 \$465,665 within the subsequent year.

Interfund Transfers

Interfund transfers for the year ended December 31, 2022, consisted of the following:

Transfers To/From Other Funds			
Transfer In	Transfer Out	Amount	Purpose
General Fund	Ditch Special Revenue Fund	\$ 15,089	Eliminate ditch sinking funds
Ditch Special Revenue Fund	General Fund	112,360	Eliminate ditch sinking funds
Landfill Enterprise Fund	General Fund	12,198	Interest distribution
Total Transfers To/From Other Funds		\$ 139,647	

Governmental activities and business-type activities includes a transfer of \$14,400 for an asset that was transferred from the Landfill Enterprise Fund to the General Fund.

Cottonwood County Windom, Minnesota

Liabilities and Deferred Inflows of Resources

Construction Commitments

The County has active construction projects as of December 31, 2022. The projects include the following:

Active Construction Projects and Other Commitments as of December 31, 2022

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Road and Bridge Special Revenue Fund		
SP 017-607-021 and SP 017-070-004	\$ 5,089,858	\$ 53,152
Concrete crushing	65,388	38,612
Bridge Replacement Project	1,189,680	228,946
Total	\$ 6,344,926	\$ 320,710

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.

Debt Service Requirements

Governmental Activities

Debt Service Requirements as of December 31, 2022

Year Ending December 31	Loans Payable*	
	Principal	Interest
2023	\$ 155,388	\$ 2,475
2024	148,170	1,603
2025	130,737	1,055
2026	121,496	639
2027	110,995	214
2028-2032	168,677	81
2033	689	-
Total	\$ 806,152	\$ 6,067

Cottonwood County Windom, Minnesota

*The debt service requirements for a loan from the Minnesota Pollution Control Agency of \$932,571 are not known as of December 31, 2022.

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2022, was as follows:

Governmental Activities

Changes in Long-Term Liabilities for the Year Ended December 31, 2022

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Loans payable	\$ 1,645,236	\$ 254,325	\$ 160,838	\$ 1,738,723	\$ 155,388
Compensated absences	653,228	307,623	308,967	651,884	64,732
Governmental Activities					
Total Long-Term Liabilities	<u>\$ 2,298,464</u>	<u>\$ 561,948</u>	<u>\$ 469,805</u>	<u>\$ 2,390,607</u>	<u>\$ 220,120</u>

Business-Type Activities

Changes in Long-Term Liabilities for the Year Ended December 31, 2022

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Estimated liability for landfill closure and postclosure care	\$ 2,016,231	\$ 852,254	\$ -	\$ 2,868,485	\$ -
Compensated absences	30,607	9,278	6,216	33,669	3,343
Business-Type Activities					
Total Long-Term Liabilities	<u>\$ 2,046,838</u>	<u>\$ 861,532</u>	<u>\$ 6,216</u>	<u>\$ 2,902,154</u>	<u>\$ 3,343</u>

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 began 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.

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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 began 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, 2022, the outstanding principal balance for the 2011A, 2020A, and 2020B bonds were \$555,000, \$4,440,000, and \$1,235,087, respectively.

Deferred Inflows of Resources – Unavailable Revenue

Deferred inflows of resources as of December 31, 2022, for the County's governmental funds are as follows:

Deferred Inflows of Resources	
	<u>Unavailable Revenue</u>
Delinquent property taxes	\$ 85,368
Special assessments receivable, delinquent and noncurrent	1,468,294
Highway allotments that do not provide current financial resources	2,185,166
Interest revenue	<u>88,020</u>
Total Governmental Funds	<u>\$ 3,826,848</u>

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 \$2,868,485 landfill closure and postclosure care liability at December 31, 2022, represents the cumulative amount reported to date based on the use of 80 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$727,344 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2022. 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, 2022, the County has \$1,826,285 in assets restricted for these purposes. The County is underfunded in this account by \$1,042,200 at December 31, 2022. 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

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regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

Other Postemployment Benefits (OPEB)

Plan Description

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

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.

Employees Covered by the OPEB Benefit Terms As of the January 1, 2021, Actuarial Valuation

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

Total OPEB Liability

The County's total OPEB liability of \$304,918 was determined by an actuarial valuation as of January 1, 2021, which was rolled forward to a measurement date of January 1, 2022. The OPEB liability is liquidated through the General Fund, the Landfill Enterprise Fund, and other governmental funds that have personal services.

The total OPEB liability in the fiscal year-end December 31, 2022, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

OPEB Actuarial Assumptions and Other Inputs

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	7.50 percent, decreasing 0.50 percent per year to an ultimate rate of 4.50 percent

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The current year discount rate is 2.25 percent, which is a change from the prior year rate of 2.12 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.

Changes in the Total OPEB Liability

Changes in the Total OPEB Liability For the Year Ended December 31, 2022	
Balance at December 31, 2021	\$ 275,375
Changes for the year	
Service cost	\$ 37,253
Interest	6,482
Differences between expected and actual experience	2,087
Changes in assumptions or other inputs	(2,467)
Benefit payments	(13,812)
Net change	\$ 29,543
Balance at December 31, 2022	\$ 304,918

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 (1.25%)	Discount Rate (2.25%)	1% Increase (3.25%)
Total OPEB liability	\$ 324,227	\$ 304,918	\$ 286,438

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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:

Sensitivity of the Total OPEB Liability to Changes in the Health Care Trend Rates as of December 31, 2022

	1% Decrease (6.50% Decreasing to 3.50%)		Health Care Cost Trend Rate (7.50% Decreasing to 4.50%)		1% Increase (8.50% Decreasing to 5.50%)
Total OPEB liability	\$ 279,117	\$	304,918	\$	335,700

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

For the year ended December 31, 2022, the County recognized OPEB expense of \$45,040. The County reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB as of December 31, 2022

	Deferred Outflows of Resources		Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 1,927	\$	66,506
Changes in actuarial assumptions	57,897		4,132
Contributions made subsequent to the measurement date	8,129		-
Total	<u>\$ 67,953</u>	<u>\$</u>	<u>70,638</u>

The \$8,129 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, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Schedule of Amortization of Deferred Outflows and Inflows of Resources Related to OPEB As of December 31, 2022

Year Ended December 31		OPEB Expense Amount
2023	\$	1,305
2024		1,305
2025		1,312
2026		(4,727)
2027		(3,991)
Thereafter		(6,018)

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Changes in Actuarial Assumptions

The following change in actuarial assumptions occurred in 2022:

- The discount rate used changed from 2.12 percent to 2.25 percent.

Pension Plans

Defined Benefit Pension Plans

Plan Description

All full-time and certain part-time employees of Cottonwood County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement 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.

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 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.

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.

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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. 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.

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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 2021.

Member and Employer Required Contribution Rates

	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%

Employer Contributions for the Year Ended December 31, 2022

General Employees Plan	\$ 255,384
Police and Fire Plan	137,364
Correctional Plan	62,760

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

Pension Costs

General Employees Plan

At December 31, 2022, the County reported a liability of \$3,524,415 for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2022, 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, 2021, through June 30, 2022, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2022, the County's proportion was 0.0445 percent. It was 0.0463 percent measured as of June 30, 2021. The County recognized pension expense of \$496,157 for its proportionate share of the General Employees Plan's pension expense.

Legislation requires the State of Minnesota to contribute \$16 million to the General Employees Plan annually until September 15, 2031. The County recognized an additional \$15,438 as grant revenue and pension expense for its proportionate share of the State of Minnesota's pension expense related to the special funding situation.

General Employees Plan Employer's Share of the Net Pension Liability and the State's Related Liability As of December 31, 2022

The County's proportionate share of the net pension liability	\$ 3,524,415
State of Minnesota's proportionate share of the net pension liability associated with the County	103,315
Total	\$ 3,627,730

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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:

General Employees Plan Deferred Outflows of Resources and Deferred Inflows of Resources As of December 31, 2022

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 29,439	\$ 38,999
Changes in actuarial assumptions	828,929	14,173
Difference between projected and actual investment earnings	8,308	-
Changes in proportion	73,092	67,327
Contributions paid to PERA subsequent to the measurement date	128,278	-
Total	\$ 1,068,046	\$ 120,499

The \$128,278 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, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

General Employees Plan Schedule of Amortization of Deferred Outflows and Inflows of Resources As of December 31, 2022

Year Ended December 31	Pension Expense Amount
2023	\$ 317,129
2024	333,099
2025	(149,690)
2026	318,731

Police and Fire Plan

At December 31, 2022, the County reported a liability of \$2,728,456 for its proportionate share of the Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2022, 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, 2021, through June 30, 2022, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2022, the County's proportion was 0.0627 percent. It was 0.0627 percent measured as of June 30, 2021. The County recognized pension expense of \$192,776 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, 2022. 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.

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Legislation requires the State of Minnesota to pay direct state aid of \$9 million on October 1 each year until full funding is reached, or July 1, 2048, whichever is earlier. The County recognized an additional \$23,107 as grant revenue and pension expense for its proportionate share of the State of Minnesota's pension expense related to the special funding situation.

Police and Fire Plan Employer's Share of the Net Pension Liability and the State's Related Liability As of December 31, 2022

The County's proportionate share of the net pension liability	\$	2,728,456
State of Minnesota's proportionate share of the net pension liability associated with the County		119,123
Total	\$	2,847,579

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:

Police and Fire Plan Deferred Outflows of Resources and Deferred Inflows of Resources As of December 31, 2022

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 167,795	\$ -
Changes in actuarial assumptions	1,606,117	17,763
Difference between projected and actual investment earnings	41,372	-
Changes in proportion	2,842	54,939
Contributions paid to PERA subsequent to the measurement date	68,834	-
Total	\$ 1,886,960	\$ 72,702

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The \$68,834 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, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

**Police and Fire Plan
Schedule of Amortization of
Deferred Outflows and Inflows of Resources
As of December 31, 2022**

Year Ended December 31	Pension Expense Amount
2023	\$ 330,977
2024	336,348
2025	297,482
2026	553,604
2027	227,013

Correctional Plan

At December 31, 2022, the County reported a liability of \$1,021,798 for its proportionate share of the Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2022, 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, 2021, through June 30, 2022, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2022, the County's proportion was 0.3074 percent. It was 0.3154 percent measured as of June 30, 2021. The County recognized pension expense of \$355,021 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:

**Correctional Plan
Deferred Outflows of Resources and Deferred Inflows of Resources
As of December 31, 2022**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 33,582
Changes in actuarial assumptions	667,230	1,477
Difference between projected and actual investment earnings	18,784	-
Changes in proportion	3,128	31
Contributions paid to PERA subsequent to the measurement date	31,930	-
Total	\$ 721,072	\$ 35,090

Cottonwood County Windom, Minnesota

The \$31,930 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, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

**Correctional Plan
Schedule of Amortization of
Deferred Outflows and Inflows of Resources
As of December 31, 2022**

Year Ended December 31	Pension Expense Amount
2023	\$ 296,410
2024	306,541
2025	(30,986)
2026	82,087

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2022, was \$1,043,954.

Actuarial Assumptions

The total pension liability in the June 30, 2022, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

Actuarial Assumptions for the Year Ended June 30, 2022

	General Employees Fund	Police and Fire Fund	Correctional Fund
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 disability rates 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 per year through December 31, 2054, and 1.50 percent per year thereafter. 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, 2022, valuations 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 July 12, 2022, was utilized.

Cottonwood County

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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.

Pension Plan Investment Target Allocation and Best Estimates of Geometric Real Rates of Return for Each Major Asset Class

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

[Discount Rate](#)

The discount rate used to measure the total pension liability was 6.50 percent for the General Employees Plan in 2022, which remained consistent with 2021. 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 position of the General Employees Plan was 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.

In the Police and Fire Plan and Correctional Plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2060, and June 30, 2061, respectively. Beginning in fiscal year ended June 30, 2061, for the Police and Fire Plan and June 30, 2062, for the Correctional Plan, projected benefit payments exceed the funds' projected fiduciary net position. Benefit payments projected after were discounted at the municipal bond rate of 3.69 percent, based on the weekly rate closest to but not later than the measurement date of the Fidelity 20-Year Municipal GO AA Index. An equivalent single discount rate of 5.40 percent for the Police and Fire Plan and 5.42 percent for the Correctional Plan was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 6.50 percent applied to all years of projected benefits to the point of asset depletion and 3.69 percent thereafter.

[Changes in Actuarial Assumptions and Plan Provisions](#)

The following changes in actuarial assumptions occurred in 2022:

[General Employees Plan](#)

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

[Police and Fire Plan](#)

- The single discount rate changed from 6.50 percent to 5.40 percent.

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- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

Correctional Plan

- The single discount rate changed from 6.50 percent to 5.42 percent.
- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.
- The benefit increase assumption was changed from 2.00 percent per annum to 2.00 percent per annum through December 31, 2054, and 1.50 percent per annum thereafter.

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.

Sensitivity of the Employer's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate As of December 31, 2022

	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%	\$ 5,566,997	4.40%	\$ 4,129,169	4.42%	\$ 1,799,845
Current	6.50%	3,524,415	5.40%	2,728,456	5.42%	1,021,798
1% Increase	7.50%	1,849,182	6.40%	1,596,064	6.42%	410,078

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.

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.

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

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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 the Employer For the Year Ended December 31, 2022

	Employee	Employer
Contribution amount	\$ 7,355	\$ 7,355
Percentage of covered payroll	5.00%	5.00%

Note 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.

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 2022 and 2023. 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.

Note 5 – Summary of Significant Contingencies and Other Items

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

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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.

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 2022, Cottonwood County contributed \$77,810 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 2022 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 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.

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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 2022, 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.

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, 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

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Cottonwood and Jackson Counties. The Board is headquartered in Windom, Minnesota, where DVHHS acts as fiscal agent.

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 2022, 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.

[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 2022, Cottonwood County contributed \$2,510 to the Joint Powers Board.

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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 did not contribute to this organization in 2022. 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 2022, Cottonwood County made contributions of \$23,495 to the A.C.E. of Southwest Minnesota.

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 2022.

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

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 \$4,042 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 no payments 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 \$9,920 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.

Region Five – Southwest Minnesota Homeland Security Emergency Management Organization

The Region Five – Southwest Minnesota Homeland 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

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of Public Safety, and the Bureau of Criminal Apprehension to carry out criminal justice. During the year, Cottonwood County contributed \$2,940 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 \$18,031 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 2022.

Opioid Settlement Funds

Cottonwood County is a participating government in the opioid settlement with pharmaceutical manufacturers, distributors, and pharmacy chains. The County is expected to receive \$651,332 over the next 18 years. The majority of the funds are intended for opioid abatement. The *Minnesota Opioids State-Subdivision Memorandum of Agreement (MOA)* identifies the requirements for Minnesota governments participating in the settlement. Pursuant to the terms of the MOA, the County created a separate fund. The County has combined the Opioid Settlement Fund with the General Fund for their financial statements. Funds are restricted until expended. The MOA requires that the County recognize the settlement revenues when the annual distribution is made to the participating governments. Therefore, the County does not record a receivable for the settlement. For the year ended December 21, 2022, the County received \$75,513 as part of the settlement.

Required Supplementary Information

**Cottonwood County
Windom, Minnesota**

Exhibit A-1

**Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2022**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 8,741,774	\$ 8,741,774	\$ 8,514,917	\$ (226,857)
Special assessments	177,000	177,000	310,440	133,440
Licenses and permits	25,460	25,460	24,244	(1,216)
Intergovernmental	1,661,189	1,661,189	2,074,021	412,832
Settlements	-	-	75,513	75,513
Charges for services	493,500	493,500	646,089	152,589
Fines and forfeits	12,000	12,000	11,873	(127)
Investment earnings	93,500	93,500	129,754	36,254
Miscellaneous	342,690	342,690	344,780	2,090
Total Revenues	\$ 11,547,113	\$ 11,547,113	\$ 12,131,631	\$ 584,518
Expenditures				
Current				
General government				
Commissioners	\$ 484,778	\$ 484,778	\$ 478,555	\$ 6,223
Courts	107,000	107,000	78,159	28,841
Law library	11,000	11,000	2,858	8,142
Auditor/treasurer	517,259	517,259	509,760	7,499
Assessor	573,311	573,311	530,361	42,950
Geographic information system	24,100	24,100	10,348	13,752
Office of technology	297,549	297,549	305,655	(8,106)
Elections	195,876	195,876	206,512	(10,636)
Attorney	439,034	439,034	436,296	2,738
Recorder	382,937	382,937	352,189	30,748
Building and plant	227,623	227,623	228,607	(984)
Veterans service officer	123,956	123,956	105,760	18,196
Other general government	327,231	449,502	542,920	(93,418)
Total general government	\$ 3,711,654	\$ 3,833,925	\$ 3,787,980	\$ 45,945
Public safety				
Sheriff	\$ 1,669,793	\$ 1,669,793	\$ 1,622,563	\$ 47,230
Emergency services	115,120	115,120	107,197	7,923
Coroner	36,000	36,000	64,106	(28,106)
Safety program	11,400	11,400	9,929	1,471
Jail	1,393,974	1,393,974	1,344,185	49,789
Probation and parole	175,186	175,186	174,195	991
Total public safety	\$ 3,401,473	\$ 3,401,473	\$ 3,322,175	\$ 79,298

**Cottonwood County
Windom, Minnesota**

**Exhibit A-1
(Continued)**

**Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2022**

	<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	\$ 364,500	\$ 364,500	\$ 540,105	\$ (175,605)
Health and human services				
Environmental health	\$ 16,000	\$ 16,000	\$ 15,966	\$ 34
Culture and recreation				
Parks	\$ 168,565	\$ 168,565	\$ 168,012	\$ 553
Regional library	63,720	63,720	63,720	-
Snow riders	110,000	110,000	117,684	(7,684)
Total culture and recreation	\$ 342,285	\$ 342,285	\$ 349,416	\$ (7,131)
Conservation of natural resources				
Extension	\$ 139,822	\$ 139,822	\$ 136,174	\$ 3,648
Soil and water conservation	120,702	120,702	82,307	38,395
Water planning	116,251	116,251	84,028	32,223
Water quality loan program	234,100	234,100	60,270	173,830
Environmental services	155,826	155,826	148,309	7,517
Total conservation of natural resources	\$ 766,701	\$ 766,701	\$ 511,088	\$ 255,613
Intergovernmental				
Health and human services	\$ 2,851,644	\$ 2,851,644	\$ 2,851,644	\$ -
Debt service				
Principal	\$ -	\$ -	\$ 160,838	\$ (160,838)
Interest	-	-	3,501	(3,501)
Total debt service	\$ -	\$ -	\$ 164,339	\$ (164,339)
Total Expenditures	\$ 11,454,257	\$ 11,576,528	\$ 11,542,713	\$ 33,815
Excess of Revenues Over (Under)				
Expenditures	\$ 92,856	\$ (29,415)	\$ 588,918	\$ 618,333

**Cottonwood County
Windom, Minnesota**

**Exhibit A-1
(Continued)**

**Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2022**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 15,089	\$ 15,089
Transfers out	-	-	(124,558)	(124,558)
Loans issued	60,000	60,000	254,325	194,325
Total Other Financing Sources (Uses)	\$ 60,000	\$ 60,000	\$ 144,856	\$ 84,856
Net Change in Fund Balance	\$ 152,856	\$ 30,585	\$ 733,774	\$ 703,189
Fund Balance – January 1, as previously reported	\$ 7,818,564	\$ 7,818,564	\$ 7,818,564	\$ -
Restatement (Note 1)	489,566	489,566	489,566	-
Fund Balance – January 1, as restated	\$ 8,308,130	\$ 8,308,130	\$ 8,308,130	\$ -
Fund Balance – December 31	\$ 8,460,986	\$ 8,338,715	\$ 9,041,904	\$ 703,189

**Cottonwood County
Windom, Minnesota**

Exhibit A-2

**Budgetary Comparison Schedule
Road and Bridge Special Revenue Fund
For the Year Ended December 31, 2022**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,348,774	\$ 2,348,774	\$ 2,360,396	\$ 11,622
Licenses and permits	20,000	20,000	16,750	(3,250)
Intergovernmental	9,045,528	9,045,528	8,605,175	(440,353)
Charges for services	30,000	30,000	285,469	255,469
Miscellaneous	60,000	60,000	134,823	74,823
Total Revenues	\$ 11,504,302	\$ 11,504,302	\$ 11,402,613	\$ (101,689)
Expenditures				
Current				
Highways and streets				
Administration	\$ 461,372	\$ 461,372	\$ 664,901	\$ (203,529)
Maintenance	1,724,149	1,724,149	2,034,488	(310,339)
Construction	7,200,634	7,200,634	6,420,338	780,296
Equipment and maintenance shops	1,668,147	1,668,147	1,037,918	630,229
Total highways and streets	\$ 11,054,302	\$ 11,054,302	\$ 10,157,645	\$ 896,657
Intergovernmental				
Highways and streets	450,000	450,000	650,259	(200,259)
Total Expenditures	\$ 11,504,302	\$ 11,504,302	\$ 10,807,904	\$ 696,398
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ -	\$ 594,709	\$ 594,709
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	-	32,308	32,308
Net Change in Fund Balance	\$ -	\$ -	\$ 627,017	\$ 627,017
Fund Balance – January 1	4,021,884	4,021,884	4,021,884	-
Increase (decrease) in inventories	-	-	58,597	58,597
Fund Balance – December 31	\$ 4,021,884	\$ 4,021,884	\$ 4,707,498	\$ 685,614

**Cottonwood County
Windom, Minnesota**

Exhibit A-3

**Schedule of Changes in Total OPEB Liability and Related Ratios
Other Postemployment Benefits
December 31, 2022**

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB Liability						
Service cost	\$ 37,253	\$ 32,913	\$ 29,020	\$ 25,644	\$ 23,659	\$ 8,999
Interest	6,482	10,755	12,546	10,458	11,251	7,658
Changes of benefit terms	-	-	-	-	9,791	-
Differences between expected and actual experience	2,087	(74,676)	164	(1,968)	(21,310)	(4,586)
Changes of assumption or other inputs	(2,467)	27,295	15,675	(3,949)	7,077	74,920
Benefit payments	(13,812)	(35,529)	(37,690)	(27,087)	(20,438)	(39,115)
Net change in total OPEB liability	\$ 29,543	\$ (39,242)	\$ 19,715	\$ 3,098	\$ 10,030	\$ 47,876
Total OPEB Liability – Beginning	<u>275,375</u>	<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>\$ 304,918</u>	<u>\$ 275,375</u>	<u>\$ 314,617</u>	<u>\$ 294,902</u>	<u>\$ 291,804</u>	<u>\$ 281,774</u>
Covered-employee payroll	\$ 4,720,728	\$ 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	6.46%	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, 2022**

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
2022	0.0445 %	\$ 3,524,415	\$ 103,315	\$ 3,627,730	\$ 3,336,516	105.63 %	76.67 %
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, 2022**

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)
2022	\$ 255,384	\$ 255,384	\$ -	\$ 3,405,117	7.50 %
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, 2022**

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
2022	0.0627 %	\$ 2,728,456	\$ 119,123	\$ 2,847,579	\$ 761,542	358.28 %	70.53 %
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, 2022**

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)
2022	\$ 137,364	\$ 137,364	\$ -	\$ 776,070	17.70 %
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, 2022**

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
2022	0.3074 %	\$ 1,021,798	\$ 675,310	151.31 %	74.58 %
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, 2022**

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)
2022	\$ 62,760	\$ 62,760	\$ -	\$ 717,258	8.75 %
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.

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Notes to the Required Supplementary Information For the Year Ended December 31, 2022

Note 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.

Note 2 – Budget Amendments

The revenue and expenditure budgets were amended during the year.

Note 3 – 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.

Note 4 – Other Postemployment Benefits – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

The following changes in actuarial assumptions occurred:

2022

- The discount rate used changed from 2.12 percent to 2.25 percent.

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.

Cottonwood County

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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.
- 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.

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

Cottonwood County Windom, Minnesota

coverage levels.

Note 5 – 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

2022

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

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.
- 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

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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.

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.

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.

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- 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.

Public Employees Police and Fire Plan

2022

- The single discount rate changed from 6.50 percent to 5.40 percent.
- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

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.

Cottonwood County Windom, Minnesota

- 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.

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.

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.

Cottonwood County Windom, Minnesota

- 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.
- 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

2022

- The single discount rate changed from 6.50 percent to 5.42 percent.
- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.
- The benefit increase assumption was changed from 2.00 percent per annum to 2.00 percent per annum through December 31, 2054, and 1.50 percent per annum thereafter.

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.

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- 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.

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

Cottonwood County Windom, Minnesota

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.

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, 2022**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,149,170	\$ 1,149,170	\$ 1,149,170	\$ -
Miscellaneous	129,742	129,742	129,742	-
Total Revenues	<u>\$ 1,278,912</u>	<u>\$ 1,278,912</u>	<u>\$ 1,278,912</u>	<u>\$ -</u>
Expenditures				
Current				
General government	\$ -	\$ -	\$ 22,904	\$ (22,904)
Capital outlay				
General government	188,250	188,250	194,775	(6,525)
Total Expenditures	<u>\$ 188,250</u>	<u>\$ 188,250</u>	<u>\$ 217,679</u>	<u>\$ (29,429)</u>
Net Change in Fund Balance	<u>\$ 1,090,662</u>	<u>\$ 1,090,662</u>	<u>\$ 1,061,233</u>	<u>\$ (29,429)</u>
Fund Balance – January 1, as previously reported	\$ 4,552,148	\$ 4,552,148	\$ 4,552,148	\$ -
Restatement (Note 1)	(489,566)	(489,566)	(489,566)	-
Fund Balance – January 1, as restated	<u>\$ 4,062,582</u>	<u>\$ 4,062,582</u>	<u>\$ 4,062,582</u>	<u>\$ -</u>
Fund Balance – December 31	<u><u>\$ 5,153,244</u></u>	<u><u>\$ 5,153,244</u></u>	<u><u>\$ 5,123,815</u></u>	<u><u>\$ (29,429)</u></u>

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, 2022**

	Taxes and Penalties	State Revenue	Jail Canteen	Total Custodial Funds
<u>Assets</u>				
Cash and pooled investments	\$ 604,275	\$ 26,852	\$ 17,173	\$ 648,300
Taxes receivable for other governments	216,495	-	-	216,495
Special assessments receivable for other governments	53,240	-	-	53,240
Total Assets	\$ 874,010	\$ 26,852	\$ 17,173	\$ 918,035
<u>Liabilities</u>				
Due to other governments	\$ 424,720	\$ 3,481	-	\$ 428,201
<u>Deferred Inflows of Resources</u>				
Prepaid taxes	\$ 63,666	-	-	\$ 63,666
<u>Net Position</u>				
Restricted for individuals, organizations, and other governments	\$ 385,624	\$ 23,371	\$ 17,173	\$ 426,168

**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, 2022**

	<u>Taxes and Penalties</u>	<u>State Revenue</u>	<u>Jail Canteen</u>	<u>Total Custodial Funds</u>
<u>Additions</u>				
Contributions from individuals	\$ -	\$ -	\$ 57,884	\$ 57,884
Property tax collections for other governments	14,616,388	-	-	14,616,388
Fees collected for state	-	517,953	-	517,953
Miscellaneous	90,122	-	-	90,122
Total Additions	\$ 14,706,510	\$ 517,953	\$ 57,884	\$ 15,282,347
<u>Deductions</u>				
Payments of property tax to other governments	\$ 14,861,052	\$ -	\$ -	\$ 14,861,052
Payments to state	-	609,476	-	609,476
Payments to other individuals/entities	41,793	-	58,346	100,139
Total Deductions	\$ 14,902,845	\$ 609,476	\$ 58,346	\$ 15,570,667
Change in Net Position	\$ (196,335)	\$ (91,523)	\$ (462)	\$ (288,320)
Net Position – January 1	581,959	114,894	17,635	714,488
Net Position – December 31	\$ 385,624	\$ 23,371	\$ 17,173	\$ 426,168

Schedules

**Cottonwood County
Windom, Minnesota**

Exhibit D-1

**Schedule of Intergovernmental Revenue
For the Year Ended December 31, 2022**

Appropriations and Shared Revenue

State

Highway users tax	\$ 6,052,811
County program aid	647,902
PERA aid	17,990
Disparity reduction aid	43,233
Police aid	100,164
Enhanced 911	174,534
Market value credit	238,070
Select Committee on Recycling and the Environment (SCORE)	72,440
Aquatic invasive species aid	56,524
Riparian protection aid	123,258

Total appropriations and shared revenue **\$ 7,526,926**

Payments

Local

Payments in lieu of taxes	\$ 320,122
---------------------------	------------

Grants

State

Minnesota Department/Board/Office of Corrections	\$ 27,687
Natural Resources	127,084
Transportation	739,979
Water and Soil Resources	44,994
Veterans Affairs	7,500
Pollution Control Agency	25,911

Total state **\$ 973,155**

Federal

Department of Transportation	\$ 1,812,385
Treasury	46,608

Total federal **\$ 1,858,993**

Total state and federal grants **\$ 2,832,148**

Total Intergovernmental Revenue **\$ 10,679,196**

**Cottonwood County
Windom, Minnesota**

Exhibit D-2

**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2022**

Federal Grantor Pass-Through Agency Program or Cluster Title	Assistance Listing Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation Highway Planning and Construction Cluster Highway Planning and Construction	20.205	00017	\$ 1,812,385
U.S. Department of the Treasury			
Direct COVID-19 – Coronavirus State and Local Fiscal Recovery Funds	21.027		46,608
Total Federal Awards			<u>\$ 1,858,993</u>
Totals by Cluster			
Total expenditures for Highway Planning and Construction Cluster			\$ 1,812,385

The County did not pass any federal awards through to subrecipients during the year ended December 31, 2022.

Cottonwood County Windom, Minnesota

Notes to the Schedule of Expenditures of Federal Awards As of and for the Year Ended December 31, 2022

Note 1 – Summary of Significant Accounting Policies

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.

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, 2022. 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.

Note 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.

Note 3 – Coronavirus State and Local Fiscal Recovery Funds

During the current year, Cottonwood County has identified \$322,054 of 2021 expenditures to be applied to the Coronavirus State and Local Fiscal Recovery Funds, assistance listing 21.027. These expenditures were not identified in time to be included on the 2021 Schedule of Expenditures of Federal Awards. Because they are not current year expenditures, they are not included in the 2022 Schedule of Expenditures of Federal Awards.

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, 2022, 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 7, 2023.

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 opinion 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 deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 2022-001 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 Findings

Government Auditing Standards requires the auditor to perform limited procedures on Cottonwood 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

August 7, 2023



**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, 2022. 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, 2022.

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

August 7, 2023

Cottonwood County Windom, Minnesota

Schedule of Findings and Questioned Costs For the Year Ended December 31, 2022

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles: **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 federal 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**

Identification of the major federal program:

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

The threshold used to distinguish between Type A and B programs was \$750,000.

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

Section II – Financial Statement Findings

2022-001 Audit Adjustments

Prior Year Finding Number: 2021-001

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

Cottonwood County

Windom, Minnesota

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: Material audit adjustments were 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 adjustments were found in the audit; however, independent external auditors cannot be considered part of the County's internal control.

Effect: The following audit adjustments were reviewed and approved by management and are reflected in the financial statements.

- The General Fund required an adjustment to increase unearned revenue and decrease intergovernmental revenue by \$1,856,030 for unspent federal grants received by the County.
- The Landfill Enterprise Fund required an adjustment to decrease cash and investments and interest revenue by \$179,091 due to the change in the fair market value of the investments.

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

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.

View of Responsible Official: Acknowledge.

Section III – Federal Award Findings and Questioned Costs

None.



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Representation of Cottonwood County
Windom, Minnesota

Corrective Action Plan
For the Year Ended December 31, 2022

Finding Number: 2022-001
Finding Title: Audit Adjustments

Name of Contact Person Responsible for Corrective Action:

Donna Torkelson, County Auditor Treasurer

Corrective Action Planned:

Improvements to year end procedures and journal entries will continue to be reviewed to ensure the financial statements are accurate, complete and fairly represented in accordance with generally accepted accounting principles.

Anticipated Completion Date:

12/31/2023



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, 2022

Finding Number: 2021-001
Year of Finding Origination: 2019
Finding Title: Audit Adjustment

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

Summary of Corrective Action Previously Reported: Continue training with the Chief Deputy Auditor/Treasurer on the Public Works adjustments for year-end adjustments.

Status: Not Corrected. Continue training opportunities for the Auditor/Treasurer to fully review and identify year-end adjustments needed for accurate reporting.

Corrective action taken was not significantly different than the action previously reported.