

# STATE OF MINNESOTA

## Office of the State Auditor



**Julie Blaha**  
**State Auditor**

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**COTTONWOOD COUNTY**  
**WINDOM, MINNESOTA**

**YEAR ENDED DECEMBER 31, 2018**

## **Description of the Office of the State Auditor**

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 100 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** – conducts financial and legal compliance audits of local governments;

**Government Information** – collects and analyzes financial information for cities, towns, counties, and special districts;

**Legal/Special Investigations** – provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

**Pension** – monitors investment, financial, and actuarial reporting for approximately 600 public pension funds; and

**Tax Increment Financing** – promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**Year Ended December 31, 2018**



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

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**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**ORGANIZATION  
2018**

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
<b>Commissioners</b>		
1st District	Jim Schmidt	January 2019
2nd District	Kevin Stevens	January 2021
3rd District	Donna Gravley <sup>1</sup>	January 2023
4th District	Norman Holmen <sup>2</sup>	January 2021
5th District	Tom Appel	January 2023
<b>Officials</b>		
<b>Elected</b>		
Attorney	Nicholas Anderson	January 2023
Auditor/Treasurer	Jan Johnson	January 2023
County Recorder	Kathleen Kretsch	January 2023
Sheriff	Jason Purrington	January 2023
<b>Appointed</b>		
Assessor	Gale Bondhus	December 31, 2020
Coordinator	Kelly Thongvivong	Indefinite
Highway Engineer	Nicholas Klisch	May 2022
Veterans Service Officer	Todd Dibble	Indefinite
Emergency Management Director	Paul Johnson	Indefinite

<sup>1</sup>Chair 2018

<sup>2</sup>Chair 2019

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JULIE BLAHA  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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## INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Cottonwood County  
Windom, Minnesota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Cottonwood County, Minnesota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to

design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Cottonwood County as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Cottonwood County's basic financial statements. The Supplementary Information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with

auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2019, on our consideration of Cottonwood County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Cottonwood 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 Cottonwood County's internal control over financial reporting and compliance.

*/s/Julie Blaha*

JULIE BLAHA  
STATE AUDITOR

November 7, 2019

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2018  
(Unaudited)**

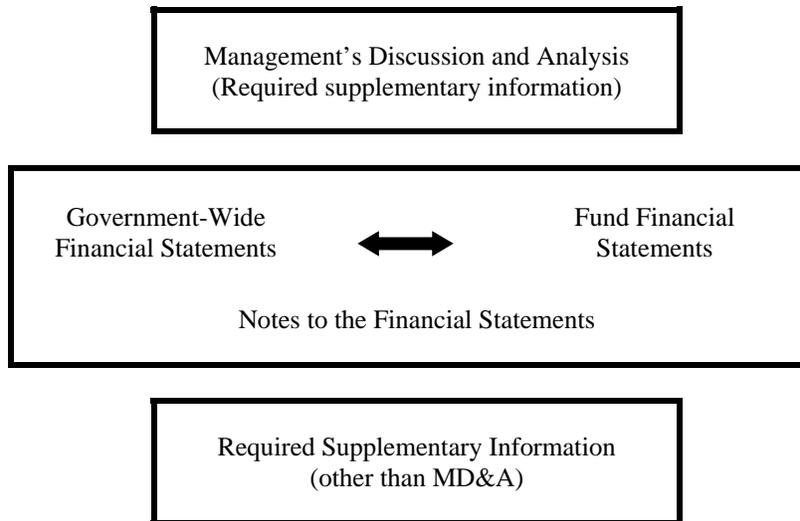
Cottonwood County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2018. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements.

**FINANCIAL HIGHLIGHTS**

- Governmental activities' total net position is \$62,441,463, of which \$55,404,813 is the net investment in capital assets, leaving \$3,383,832 of the governmental activities' net position restricted for specific uses and \$3,652,818 as unrestricted.
- Business-type activities have a total net position of \$1,488,747, of which \$1,029,818 is the net investment in capital assets, leaving \$264,784 of the business-type net position restricted for specific uses and \$194,145 as unrestricted.
- Cottonwood County's net position increased by \$4,387,258 for the year ended December 31, 2018. This increase is comprised of an increase of \$4,444,960 in the governmental activities' net position and a decrease of \$57,702 in the business-type activities' net position.
- The net cost of governmental activities was \$8,077,311 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$12,522,271.
- Governmental funds' fund balances increased by \$2,291,120.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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



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

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

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

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

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

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

### **Fund Financial Statements**

Our analysis of the County’s major funds begins on Exhibit 3. The fund financial statements provide detailed information about the significant funds—not the County as a whole. Some funds are required to be established by state law and by bond covenants. However, the County Board establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The County’s two kinds of funds—governmental and proprietary—use different accounting methods.

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

## Reporting the County's Fiduciary Responsibilities

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

## Other Information

In addition to the basic financial statements and notes, this report also presents certain required supplementary information concerning Cottonwood County's 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 \$63,930,210. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the County's governmental and business-type activities.

**Table 1**  
**Net Position**

	2018			2017
	Governmental Activities	Business-Type Activities	Total	
<b>Assets</b>				
Current and other assets	\$ 14,079,119	\$ 2,279,384	\$ 16,358,503	\$ 14,912,810
Capital assets	55,769,155	1,029,818	56,798,973	54,542,417
<b>Total Assets</b>	<b>\$ 69,848,274</b>	<b>\$ 3,309,202</b>	<b>\$ 73,157,476</b>	<b>\$ 69,455,227</b>
Deferred Outflows of Resources	\$ 1,954,174	\$ 22,960	\$ 1,977,134	\$ 2,836,266
<b>Liabilities</b>				
Long-term liabilities	\$ 5,844,235	\$ 1,780,440	\$ 7,624,675	\$ 8,999,201
Other liabilities	628,782	26,600	655,382	1,245,896
<b>Total Liabilities</b>	<b>\$ 6,473,017</b>	<b>\$ 1,807,040</b>	<b>\$ 8,280,057</b>	<b>\$ 10,245,097</b>
Deferred Inflows of Resources	\$ 2,887,968	\$ 36,375	\$ 2,924,343	\$ 2,503,444
<b>Net Position</b>				
Net investment in capital assets	\$ 55,404,813	\$ 1,029,818	\$ 56,434,631	\$ 53,441,915
Restricted	3,383,832	264,784	3,648,616	3,569,671
Unrestricted	3,652,818	194,145	3,846,963	2,531,366
<b>Total Net Position</b>	<b>\$ 62,441,463</b>	<b>\$ 1,488,747</b>	<b>\$ 63,930,210</b>	<b>\$ 59,542,952</b>

Net position of the County’s governmental activities was \$62,441,463. 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 \$3,652,818 at the end of the year. The net position of business-type activities was \$1,488,747.

**Table 2**  
**Changes in Net Position**  
**(in Thousands)**

	2018			2017
	Governmental Activities	Business-Type Activities	Total	
<b>Revenues</b>				
Program revenues				
Fees, fines, and charges	\$ 1,722	\$ 747	\$ 2,469	\$ 1,969
Operating grants and contributions	5,652	-	5,652	4,860
Capital grants and contributions	1,134	-	1,134	500
General revenues				
Property taxes	10,078	-	10,078	9,663
Other taxes	804	-	804	645
Grants, gifts, and miscellaneous	1,677	-	1,677	1,248
<b>Total Revenues</b>	<b>\$ 21,067</b>	<b>\$ 747</b>	<b>\$ 21,814</b>	<b>\$ 18,885</b>
<b>Expenses</b>				
General government	\$ 3,727	\$ -	\$ 3,727	\$ 3,113
Public safety	3,122	-	3,122	3,464
Highways and streets	5,239	-	5,239	5,861
Sanitation	353	-	353	272
Health and human services	2,867	-	2,867	3,096
Culture and recreation	307	-	307	374
Conservation of natural resources	931	-	931	966
Interest	41	-	41	40
Landfill	-	841	841	680
<b>Total Expenses</b>	<b>\$ 16,587</b>	<b>\$ 841</b>	<b>\$ 17,428</b>	<b>\$ 17,866</b>
Increase (decrease) before transfers	\$ 4,480	\$ (94)	\$ 4,386	\$ 1,019
Transfers (includes joint powers)	(36)	36	-	-
Increase (decrease) in net position	\$ 4,444	\$ (58)	\$ 4,386	\$ 1,019
Net Position – January 1	57,997	1,547	59,544	58,525
Net Position – December 31	\$ 62,441	\$ 1,489	\$ 63,930	\$ 59,544

The County’s activities increased net position by 7.37 percent (\$63,930,210 for 2018 compared to \$59,542,952 for 2017).

## TOTAL COUNTY REVENUE

### Governmental Activities

Revenues for the County's governmental activities (see Table 2) were \$21,066,761, while total expenses were \$16,585,739, and transfers out were \$36,062. This reflects a \$4,444,960 increase in net position for the year ended December 31, 2018.

### Business-Type Activities

Revenues of the County's business-type activities (see Table 2) were \$747,597, transfers in were \$36,062, and expenses were \$841,361. This reflects a \$57,702 decrease in net position for the year ending December 31, 2018.

### Governmental Activities' Expenses

The cost of the County's governmental activities this year was \$16,585,739. 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 \$8,077,311 because some of the cost was paid by those who directly benefited from the programs (\$1,722,495) or by other governments and organizations that subsidized certain programs with grants and contributions (\$6,785,933).

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

**Table 3**  
**Governmental Activities**  
**(in Thousands)**

	2018	
	Total Cost of Services	Net Cost of Services
Highways and streets	\$ 5,239	\$ (962)
General government	3,726	3,363
Public safety	3,122	2,776
Health and human services	2,867	2,867
Conservation of natural resources	931	(83)
All others	701	116
Totals	<u>\$ 16,586</u>	<u>\$ 8,077</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 \$10,607,215, which is above last year's total of \$8,316,095. The governmental funds' change in fund balance (an increase of \$2,291,120 for 2018) represents a 27.55 percent increase in governmental fund balances.

The General Fund showed an increase in fund balance of \$682,795. The overall increase in fund balance resulted from increased county program aid and windpower revenue in 2018.

The Road and Bridge Special Revenue Fund's fund balance increased by \$1,205,352 in 2018. The increase is a result of an increase in highway allotments and corresponding decrease in construction expenses.

In 2018, the Ditch Special Revenue Fund showed an increase in fund balance of \$162,170. This is a result of increased levies to help increase fund balances.

The Building Capital Projects Fund had an increase in fund balance of \$240,803 in 2018. The increase was due to a transfer from the General Fund in 2018 for a project that is planned for 2019.

### **General Fund Budgetary Highlights**

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

With these adjustments, the actual charges to appropriations (expenditures) were \$569,770 above the final budget amounts. The reason for variances of actual expenditures from final budget in this case are, in part, the unbudgeted expenditures for ag sewer loans, unanticipated attorney fees in the Courts Department, and an unbudgeted capital contribution to Counties Providing Technology.

On the other hand, resources available for appropriation were \$449,669 above the final budgeted amount. Increased federal/state grants helped push revenues above expected levels.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of 2018, the County had \$56,798,973 invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment. (See Table 4.) This amount represents a net increase (including additions and deductions) of \$2,256,556, or 4.14 percent, over last year.

**Table 4**  
**Changes in Capital Assets During 2018**

Governmental Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 321,124	\$ -	\$ -	\$ 321,124
Right-of-way	796,481	-	-	796,481
Construction in progress	-	886,275	-	886,275
<b>Total capital assets not depreciated</b>	<b>\$ 1,117,605</b>	<b>\$ 886,275</b>	<b>\$ -</b>	<b>\$ 2,003,880</b>
Capital assets depreciated				
Buildings	\$ 5,079,780	\$ 434,033	\$ -	\$ 5,513,813
Machinery and equipment	6,827,572	428,533	557,343	6,698,762
Infrastructure	69,021,500	2,536,827	-	71,558,327
<b>Total capital assets depreciated</b>	<b>\$ 80,928,852</b>	<b>\$ 3,399,393</b>	<b>\$ 557,343</b>	<b>\$ 83,770,902</b>
Less: accumulated depreciation for				
Buildings	\$ 2,835,984	\$ 114,268	\$ -	\$ 2,950,252
Machinery and equipment	3,930,142	474,947	441,109	3,963,980
Infrastructure	21,826,539	1,264,856	-	23,091,395
<b>Total accumulated depreciation</b>	<b>\$ 28,592,665</b>	<b>\$ 1,854,071</b>	<b>\$ 441,109</b>	<b>\$ 30,005,627</b>
<b>Total capital assets depreciated, net</b>	<b>\$ 52,336,187</b>	<b>\$ 1,545,322</b>	<b>\$ 116,234</b>	<b>\$ 53,765,275</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 53,453,792</b>	<b>\$ 2,431,597</b>	<b>\$ 116,234</b>	<b>\$ 55,769,155</b>

Business-Type Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 163,882	\$ 85,704	\$ -	\$ 249,586
Capital assets depreciated				
Buildings	\$ 52,731	\$ -	\$ -	\$ 52,731
Land improvements	2,386,204	-	-	2,386,204
Machinery and equipment	995,726	-	-	995,726
<b>Total capital assets depreciated</b>	<b>\$ 3,434,661</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,434,661</b>
Less: accumulated depreciation for				
Buildings	\$ 26,979	\$ 968	\$ -	\$ 27,947
Land improvements	2,116,258	53,087	-	2,169,345
Machinery and equipment	366,681	90,456	-	457,137
<b>Total accumulated depreciation</b>	<b>\$ 2,509,918</b>	<b>\$ 144,511</b>	<b>\$ -</b>	<b>\$ 2,654,429</b>
<b>Total capital assets depreciated, net</b>	<b>\$ 924,743</b>	<b>\$ (144,511)</b>	<b>\$ -</b>	<b>\$ 780,232</b>
<b>Business-Type Activities Capital Assets, Net</b>	<b>\$ 1,088,625</b>	<b>\$ (58,807)</b>	<b>\$ -</b>	<b>\$ 1,029,818</b>

## Debt

At the end of the current fiscal year, the County had total outstanding debt of \$1,805,313, versus \$1,824,930 last year—a decrease of 1.07 percent—as shown in Table 5.

**Table 5**  
**Changes in Outstanding Debt During 2018**

### Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable (fund liquidating the debt)					
G.O. Drainage Crossover Refund Bond 2011 (Ditch)	\$ 330,000	\$ -	\$ 115,000	\$ 215,000	\$ 110,000
Add: unamortized premium	<u>5,430</u>	<u>-</u>	<u>2,601</u>	<u>2,829</u>	<u>-</u>
Total bonds payable	\$ 335,430	\$ -	\$ 117,601	\$ 217,829	\$ 110,000
Loans payable	1,109,634	291,166	122,488	1,278,312	146,044
Capital lease	<u>379,866</u>	<u>-</u>	<u>70,694</u>	<u>309,172</u>	<u>73,240</u>
Governmental Activities Debt	<u>\$ 1,824,930</u>	<u>\$ 291,166</u>	<u>\$ 310,783</u>	<u>\$ 1,805,313</u>	<u>\$ 329,284</u>

The County's general obligation bond rating is an AA-. This rating is assigned by national rating agencies. The state limits the amount of net debt that counties can issue to three percent of the market value of all taxable property (\$3,208,532,462) in the County. The County's outstanding net debt (\$1,805,313) is significantly below this state-imposed limit (\$96,255,974).

## **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 2019 budget, and property tax rates.

- Cottonwood County is anticipating reductions of state aids to local governments. The County will do its best to maintain a stable service environment even if state reductions are implemented.
- County General Fund expenditures for 2019 are budgeted to decrease 1.85 percent from 2018.
- Property taxes levied have increased 3.0 percent for 2019.

## **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.

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## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET POSITION  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2018**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 10,490,054	\$ 338,771	\$ 10,828,825
Receivables	3,241,357	49,621	3,290,978
Inventories	347,708	-	347,708
Restricted assets			
Cash and pooled investments	-	1,890,992	1,890,992
Capital assets			
Non-depreciable	2,003,880	249,586	2,253,466
Depreciable – net of accumulated depreciation	53,765,275	780,232	54,545,507
<b>Total Assets</b>	<b>\$ 69,848,274</b>	<b>\$ 3,309,202</b>	<b>\$ 73,157,476</b>
<b><u>Deferred Outflows of Resources</u></b>			
Deferred pension outflows	\$ 1,865,369	\$ 20,213	\$ 1,885,582
Deferred other postemployment benefits outflows	88,805	2,747	91,552
<b>Total Deferred Outflows of Resources</b>	<b>\$ 1,954,174</b>	<b>\$ 22,960</b>	<b>\$ 1,977,134</b>
<b><u>Liabilities</u></b>			
Accounts payable and other current liabilities	\$ 551,020	\$ 26,600	\$ 577,620
Accrued interest payable	4,642	-	4,642
Unearned revenue	73,120	-	73,120
Long-term liabilities			
Due within one year	410,121	3,512	413,633
Due in more than one year	2,062,161	1,651,675	3,713,836
Net pension liability	3,088,903	116,499	3,205,402
Other postemployment benefits liability	283,050	8,754	291,804
<b>Total Liabilities</b>	<b>\$ 6,473,017</b>	<b>\$ 1,807,040</b>	<b>\$ 8,280,057</b>
<b><u>Deferred Inflows of Resources</u></b>			
Prepaid property taxes	\$ 42,992	\$ -	\$ 42,992
Deferred pension inflows	2,823,431	35,708	2,859,139
Deferred other postemployment benefits inflows	21,545	667	22,212
<b>Total Deferred Inflows of Resources</b>	<b>\$ 2,887,968</b>	<b>\$ 36,375</b>	<b>\$ 2,924,343</b>

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

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**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**EXHIBIT 1  
(Continued)**

**STATEMENT OF NET POSITION  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2018**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b><u>Net Position</u></b>			
Net investment in capital assets	\$ 55,404,813	\$ 1,029,818	\$ 56,434,631
Restricted for			
General government	197,659	-	197,659
Public safety	307,898	-	307,898
Highways and streets	1,538,921	-	1,538,921
Conservation of natural resources	1,237,279	-	1,237,279
Economic development	102,075	-	102,075
Postclosure care	-	264,784	264,784
Unrestricted	<u>3,652,818</u>	<u>194,145</u>	<u>3,846,963</u>
<b>Total Net Position</b>	<b><u>\$ 62,441,463</u></b>	<b><u>\$ 1,488,747</u></b>	<b><u>\$ 63,930,210</u></b>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<b>Expenses</b>	<b>Fees, Charges, Fines, and Other</b>
<b><u>Functions/Programs</u></b>		
<b>Governmental activities</b>		
General government	\$ 3,725,826	\$ 236,116
Public safety	3,121,900	128,601
Highways and streets	5,239,226	256,405
Sanitation	352,612	326,222
Health and human services	2,866,850	-
Culture and recreation	307,436	81,692
Conservation of natural resources	931,184	693,459
Interest	40,705	-
	<b>\$ 16,585,739</b>	<b>\$ 1,722,495</b>
<b>Business-type activities</b>		
Landfill	841,361	747,597
	<b>\$ 17,427,100</b>	<b>\$ 2,470,092</b>

**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

**Transfers**

**Total general revenues and transfers**

**Change in net position**

**Net Position – Beginning**

**Net Position – Ending**

**EXHIBIT 2**

<b>Program Revenues</b>		<b>Net (Expense) Revenue and Changes in Net Position</b>		
<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ 126,510	\$ -	\$ (3,363,200)	\$ -	\$ (3,363,200)
217,304	-	(2,775,995)	-	(2,775,995)
4,810,807	1,134,028	962,014	-	962,014
67,729	-	41,339	-	41,339
-	-	(2,866,850)	-	(2,866,850)
109,068	-	(116,676)	-	(116,676)
320,487	-	82,762	-	82,762
-	-	(40,705)	-	(40,705)
<b>\$ 5,651,905</b>	<b>\$ 1,134,028</b>	<b>\$ (8,077,311)</b>	<b>\$ -</b>	<b>\$ (8,077,311)</b>
-	-	-	(93,764)	(93,764)
<b>\$ 5,651,905</b>	<b>\$ 1,134,028</b>	<b>\$ (8,077,311)</b>	<b>\$ (93,764)</b>	<b>\$ (8,171,075)</b>
		\$ 10,077,602	\$ -	\$ 10,077,602
		61,955	-	61,955
		9,543	-	9,543
		134,117	-	134,117
		598,493	-	598,493
		949,658	-	949,658
		329,465	-	329,465
		128,878	-	128,878
		268,622	-	268,622
		(36,062)	36,062	-
		<b>\$ 12,522,271</b>	<b>\$ 36,062</b>	<b>\$ 12,558,333</b>
		<b>\$ 4,444,960</b>	<b>\$ (57,702)</b>	<b>\$ 4,387,258</b>
		<b>57,996,503</b>	<b>1,546,449</b>	<b>59,542,952</b>
		<b>\$ 62,441,463</b>	<b>\$ 1,488,747</b>	<b>\$ 63,930,210</b>

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**FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

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**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**EXHIBIT 3**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2018**

	<u>General</u>	<u>Road and Bridge</u>	<u>Ditch</u>	<u>Building</u>	<u>Total</u>
<b><u>Assets</u></b>					
Cash and pooled investments	\$ 6,869,479	\$ 1,846,022	\$ 1,097,848	\$ 676,705	\$ 10,490,054
Taxes receivable – delinquent	79,046	-	-	395	79,441
Special assessments receivable					
Delinquent	30,209	-	3,519	-	33,728
Noncurrent	1,156,019	-	8,854	-	1,164,873
Accounts receivable	49,025	19,263	-	-	68,288
Accrued interest receivable	4,063	-	-	-	4,063
Loans receivable	118,607	-	-	-	118,607
Due from other funds	-	2,436	-	-	2,436
Due from other governments	-	1,772,357	-	-	1,772,357
Inventories	-	347,708	-	-	347,708
Advance to other funds	334,451	-	-	-	334,451
<b>Total Assets</b>	<b>\$ 8,640,899</b>	<b>\$ 3,987,786</b>	<b>\$ 1,110,221</b>	<b>\$ 677,100</b>	<b>\$ 14,416,006</b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>					
<b>Liabilities</b>					
Accounts payable	\$ 216,605	\$ 57,349	\$ 12,399	\$ 2,041	\$ 288,394
Salaries payable	90,551	30,881	-	-	121,432
Contracts payable	-	55,170	-	-	55,170
Due to other funds	2,436	-	-	-	2,436
Due to other governments	82,327	3,697	-	-	86,024
Unearned revenue	73,120	-	-	-	73,120
Advance from other funds	-	-	334,451	-	334,451
<b>Total Liabilities</b>	<b>\$ 465,039</b>	<b>\$ 147,097</b>	<b>\$ 346,850</b>	<b>\$ 2,041</b>	<b>\$ 961,027</b>
<b>Deferred Inflows of Resources</b>					
Unavailable revenue	\$ 1,265,274	\$ 1,526,730	\$ 12,373	\$ 395	\$ 2,804,772
Prepaid property taxes	42,992	-	-	-	42,992
<b>Total Deferred Inflows of Resources</b>	<b>\$ 1,308,266</b>	<b>\$ 1,526,730</b>	<b>\$ 12,373</b>	<b>\$ 395</b>	<b>\$ 2,847,764</b>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**EXHIBIT 3  
(Continued)**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2018**

	<u>General</u>	<u>Road and Bridge</u>	<u>Ditch</u>	<u>Building</u>	<u>Total</u>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>					
<b>(Continued)</b>					
<b>Fund Balances</b>					
Nonspendable					
Long-term loans receivable	\$ 112,024	\$ -	\$ -	\$ -	\$ 112,024
Advances to other funds	334,451	-	-	-	334,451
Inventories	-	347,708	-	-	347,708
Restricted for					
Law library	19,576	-	-	-	19,576
Election equipment	23,269	-	-	-	23,269
Recorder's technology fund	76,782	-	-	-	76,782
Recorder's compliance fund	78,032	-	-	-	78,032
Enhanced 911	163,765	-	-	-	163,765
Permit to carry administration	98,588	-	-	-	98,588
Sheriff forfeitures	45,545	-	-	-	45,545
Septic/sewer loan repayments	179,843	-	-	-	179,843
Land restoration	117,205	-	-	-	117,205
Aquatic invasive species program	144,571	-	-	-	144,571
Buffer administration	146,903	-	-	-	146,903
Low-interest small business loans	102,075	-	-	-	102,075
Highway construction	-	34,553	-	-	34,553
Ditch maintenance and repairs	-	-	932,768	-	932,768
Assigned for					
Capital improvements	250,031	-	-	-	250,031
Road and bridge	-	1,931,698	-	-	1,931,698
Building projects	-	-	-	674,664	674,664
Unassigned	4,974,934	-	(181,770)	-	4,793,164
<b>Total Fund Balances</b>	<b>\$ 6,867,594</b>	<b>\$ 2,313,959</b>	<b>\$ 750,998</b>	<b>\$ 674,664</b>	<b>\$ 10,607,215</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 8,640,899</b>	<b>\$ 3,987,786</b>	<b>\$ 1,110,221</b>	<b>\$ 677,100</b>	<b>\$ 14,416,006</b>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION—GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2018**

<b>Fund balance – total governmental funds (Exhibit 3)</b>		<b>\$ 10,607,215</b>
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.		55,769,155
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.		2,804,772
Governmental funds do not report a liability for accrued interest on long-term liabilities until due and payable.		(4,642)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (215,000)	
Unamortized premium on general obligation refunding bonds	(2,829)	
Loans payable	(1,278,312)	
Capital lease	(309,172)	
Compensated absences	(666,969)	
Net pension liability	(3,088,903)	
Other postemployment benefits liability	<u>(283,050)</u>	(5,844,235)
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		1,865,369
Deferred pension inflows		(2,823,431)
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		88,805
Deferred other postemployment benefits inflows		<u>(21,545)</u>
<b>Net Position of Governmental Activities (Exhibit 1)</b>		<b><u>\$ 62,441,463</u></b>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**EXHIBIT 5**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>General</u>	<u>Road and Bridge</u>	<u>Ditch</u>	<u>Building</u>	<u>Total</u>
<b>Revenues</b>					
Taxes	\$ 8,821,640	\$ 2,004,494	\$ -	\$ 48,677	\$ 10,874,811
Special assessments	411,697	-	430,904	-	842,601
Licenses and permits	31,224	11,175	-	-	42,399
Intergovernmental	2,114,976	6,363,069	-	-	8,478,045
Charges for services	253,631	25,309	-	-	278,940
Fines and forfeits	14,012	-	-	-	14,012
Gifts and contributions	1,100	-	-	-	1,100
Investment earnings	128,878	-	-	-	128,878
Miscellaneous	414,144	78,570	2,650	123,564	618,928
<b>Total Revenues</b>	<b>\$ 12,191,302</b>	<b>\$ 8,482,617</b>	<b>\$ 433,554</b>	<b>\$ 172,241</b>	<b>\$ 21,279,714</b>
<b>Expenditures</b>					
<b>Current</b>					
General government	\$ 3,626,724	\$ -	\$ -	\$ 531,438	\$ 4,158,162
Public safety	3,103,189	-	-	-	3,103,189
Highways and streets	-	6,924,362	-	-	6,924,362
Sanitation	348,998	-	-	-	348,998
Health and human services	15,206	-	-	-	15,206
Culture and recreation	304,235	-	-	-	304,235
Conservation of natural resources	783,226	-	133,099	-	916,325
<b>Intergovernmental</b>					
Highways and streets	-	458,010	-	-	458,010
Health and human services	2,851,644	-	-	-	2,851,644
<b>Debt service</b>					
Principal	122,488	70,694	115,000	-	308,182
Interest	7,901	13,683	22,790	-	44,374
Administrative (fiscal) charges	-	-	495	-	495
<b>Total Expenditures</b>	<b>\$ 11,163,611</b>	<b>\$ 7,466,749</b>	<b>\$ 271,384</b>	<b>\$ 531,438</b>	<b>\$ 19,433,182</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 1,027,691</b>	<b>\$ 1,015,868</b>	<b>\$ 162,170</b>	<b>\$ (359,197)</b>	<b>\$ 1,846,532</b>
<b>Other Financing Sources (Uses)</b>					
Transfers in	\$ -	\$ -	\$ -	\$ 600,000	\$ 600,000
Transfers out	(636,062)	-	-	-	(636,062)
Loans issued	291,166	-	-	-	291,166
Compensation for loss of capital assets	-	141,351	-	-	141,351
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (344,896)</b>	<b>\$ 141,351</b>	<b>\$ -</b>	<b>\$ 600,000</b>	<b>\$ 396,455</b>
<b>Net Change in Fund Balance</b>	<b>\$ 682,795</b>	<b>\$ 1,157,219</b>	<b>\$ 162,170</b>	<b>\$ 240,803</b>	<b>\$ 2,242,987</b>
<b>Fund Balance – January 1</b>	<b>6,184,799</b>	<b>1,108,607</b>	<b>588,828</b>	<b>433,861</b>	<b>8,316,095</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>48,133</b>	<b>-</b>	<b>-</b>	<b>48,133</b>
<b>Fund Balance – December 31</b>	<b>\$ 6,867,594</b>	<b>\$ 2,313,959</b>	<b>\$ 750,998</b>	<b>\$ 674,664</b>	<b>\$ 10,607,215</b>

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

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**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, 2018**

**Net change in fund balance – total governmental funds (Exhibit 5) \$ 2,242,987**

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	\$ 2,804,772	
Unavailable revenue – January 1	<u>(3,124,301)</u>	(319,529)

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

Expenditures for general capital assets and infrastructure	\$ 4,285,668	
Net book value of assets disposed	(116,234)	
Current year depreciation	<u>(1,854,071)</u>	2,315,363

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. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued; whereas, these amounts are deferred and amortized in the statement of activities.

Issuance of new debt		
Loans issued		(291,166)

Principal payments		
General obligation bonds	\$ 115,000	
Loan payments	122,488	
Capital lease	<u>70,694</u>	308,182

Amortization of premium and deferred amount of refunding		2,601
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**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**EXHIBIT 6  
(Continued)**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES—GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2018**

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

Change in inventories	\$	48,133	
Change in accrued interest payable		1,563	
Change in compensated absences		(24,866)	
Change in net pension liability		1,570,733	
Change in deferred pension outflows		(857,833)	
Change in deferred pension inflows		(528,269)	
Change in other postemployment benefits liability		(9,729)	
Change in deferred other postemployment benefits outflows		4,382	
Change in deferred other postemployment benefits inflows		(17,592)	
		186,522	
<b>Change in Net Position of Governmental Activities (Exhibit 2)</b>			<b>\$ 4,444,960</b>

**PROPRIETARY FUND**

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**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

***EXHIBIT 7***

**STATEMENT OF FUND NET POSITION  
PROPRIETARY FUND  
DECEMBER 31, 2018**

	<b><u>Landfill Enterprise Fund</u></b>
<b><u>Assets</u></b>	
Current assets	
Cash and pooled investments	\$ 338,771
Accounts receivable	49,621
Restricted assets	
Cash and pooled investments	<u>1,890,992</u>
<b>Total current assets</b>	<b><u>\$ 2,279,384</u></b>
Noncurrent assets	
Capital assets	
Nondepreciable	\$ 249,586
Depreciable – net	<u>780,232</u>
<b>Total noncurrent assets</b>	<b><u>\$ 1,029,818</u></b>
<b>Total Assets</b>	<b><u>\$ 3,309,202</u></b>
<b><u>Deferred Outflows of Resources</u></b>	
Deferred pension outflows	\$ 20,213
Deferred other postemployment benefits outflows	<u>2,747</u>
<b>Total Deferred Outflows of Resources</b>	<b><u>\$ 22,960</u></b>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**EXHIBIT 7  
(Continued)**

**STATEMENT OF FUND NET POSITION  
PROPRIETARY FUND  
DECEMBER 31, 2018**

	<b>Landfill Enterprise Fund</b>
<b><u>Liabilities</u></b>	
Current liabilities	
Accounts payable	\$ 23,088
Salaries payable	3,512
Compensated absences payable – current	3,512
<b>Total current liabilities</b>	<b>\$ 30,112</b>
Noncurrent liabilities	
Compensated absences payable – long-term	\$ 25,467
Estimated liability for landfill closure/postclosure care	1,626,208
Net pension liability	116,499
Other postemployment benefits liability	8,754
<b>Total noncurrent liabilities</b>	<b>\$ 1,776,928</b>
<b>Total Liabilities</b>	<b>\$ 1,807,040</b>
<b><u>Deferred Inflows of Resources</u></b>	
Deferred pension inflows	\$ 35,708
Deferred other postemployment benefits inflows	667
<b>Total Deferred Inflows of Resources</b>	<b>\$ 36,375</b>
<b><u>Net Position</u></b>	
Net investment in capital assets	\$ 1,029,818
Restricted for postclosure care	264,784
Unrestricted	194,145
<b>Total Net Position</b>	<b>\$ 1,488,747</b>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

*EXHIBIT 8*

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Landfill Enterprise Fund</u>
<b>Operating Revenues</b>	
Charges for services	\$ 726,410
Licenses and permits	129
Miscellaneous	21,058
	21,058
<b>Total Operating Revenues</b>	<b>\$ 747,597</b>
<b>Operating Expenses</b>	
Personal services	\$ 256,543
Professional services	69,041
Other services and charges	209,526
Utilities	11,408
Depreciation	144,511
Landfill closure and postclosure care costs	149,164
	149,164
<b>Total Operating Expenses</b>	<b>\$ 840,193</b>
<b>Operating Income (Loss)</b>	<b>\$ (92,596)</b>
<b>Nonoperating Revenues (Expenses)</b>	
Interest expense	(1,168)
	(1,168)
<b>Income (Loss) Before Transfers</b>	<b>\$ (93,764)</b>
Transfers in	36,062
	36,062
<b>Change in Net Position</b>	<b>\$ (57,702)</b>
<b>Net Position – January 1</b>	<b>1,546,449</b>
<b>Net Position – December 31</b>	<b>\$ 1,488,747</b>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**EXHIBIT 9**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2018  
Increase (Decrease) in Cash and Cash Equivalents**

	<b>Landfill Enterprise Fund</b>
<b>Cash Flows from Operating Activities</b>	
Receipts from customers and users	\$ 806,079
Payments to suppliers	(269,127)
Payments to employees	(197,509)
	<b>\$ 339,443</b>
<b>Cash Flows from Noncapital Financing Activities</b>	
Transfers in	<b>\$ 36,062</b>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Interest expense	\$ (1,168)
Advance from other funds	(109,878)
Purchase of capital assets	(85,704)
	<b>\$ (196,750)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ 178,755</b>
<b>Cash and Cash Equivalents – January 1</b>	<b>2,051,008</b>
<b>Cash and Cash Equivalents – December 31</b>	<b>\$ 2,229,763</b>
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position – Exhibit 7</b>	
Cash and pooled investments	\$ 338,771
Restricted cash and pooled investments	1,890,992
	<b>\$ 2,229,763</b>
<b>Total Cash and Cash Equivalents – December 31</b>	<b>\$ 2,229,763</b>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**EXHIBIT 9  
(Continued)**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2018  
Increase (Decrease) in Cash and Cash Equivalents**

	<u>Landfill Enterprise Fund</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>	
<b>Operating income (loss)</b>	<b>\$ (92,596)</b>
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</b>	
Depreciation expense	\$ 144,511
Landfill closure and postclosure care costs	149,164
(Increase) decrease in accounts receivable	58,482
(Increase) decrease in deferred pension outflows	5,817
(Increase) decrease in deferred other postemployment benefits outflows	(136)
Increase (decrease) in accounts payable	20,929
Increase (decrease) in salaries payable	735
Increase (decrease) in due to other funds	(81)
Increase (decrease) in compensated absences payable	2,406
Increase (decrease) in net pension liability	29,358
Increase (decrease) in other postemployment benefits liability	301
Increase (decrease) in deferred pension inflows	20,009
Increase (decrease) in deferred other postemployment benefits inflows	544
	544
<b>Total adjustments</b>	<b>\$ 432,039</b>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ 339,443</b>

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**FIDUCIARY FUNDS**

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**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

*EXHIBIT 10*

**STATEMENT OF FIDUCIARY NET POSITION  
AGENCY FUNDS  
DECEMBER 31, 2018**

**Assets**

Cash and pooled investments	<u>\$ 272,414</u>
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**Liabilities**

Due to other governments	<u>\$ 272,414</u>
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**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018**

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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, 2018. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

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

B. Basic Financial Statements

1. Government-Wide Statements

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

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

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

2. Fund Financial Statements

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

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

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

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

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

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

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

The County reports the following major enterprise fund:

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

Additionally, the County reports the following fund type:

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

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary 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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

1. Cash and Cash Equivalents

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

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Investments are reported at their fair value at December 31, 2018. 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 2018 were \$128,878.

3. Receivables and Payables

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

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

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

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

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

4. Special Assessments Receivable

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

5. Inventories

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

6. Restricted Assets

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

7. Capital Assets

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

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

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

7. Capital Assets (Continued)

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

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

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

8. Compensated Absences

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

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

9. Long-Term Obligations

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

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

10. Unearned Revenue

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

11. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position 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 defined benefit pension plans and other postemployment benefits (OPEB) and, accordingly, they are reported only in the statement of net position.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

11. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has four types of deferred inflows. Prepaid property taxes represent the County's share of tax collections collected prior to year-end that are not due until the following year. Since the property taxes are levied for use in a future year, the revenue is deferred and recognized in the period for which the amount is levied. These amounts arise under both the modified accrual and the full accrual basis of accounting and are reported in both the governmental funds balance sheet and the statement of net position. The governmental funds report unavailable revenue from delinquent taxes receivable, special assessments receivable, and grant receivables. 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 and OPEB benefits. These inflows arise only under the full accrual basis of accounting and, accordingly, are reported only in the statement of net position.

12. Pension Plan

For purposes of measuring the net pension 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 pension liability is liquidated by the General Fund and the Road and Bridge Special Revenue Fund. For the business-type activities, the pension liability is liquidated by the Landfill Enterprise Fund.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

13. Classification of Net Position

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

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.

14. Classification of Fund Balances

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

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

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

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

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

14. Classification of Fund Balances (Continued)

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

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

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

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

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

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

15. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Balance

The Ditch Special Revenue Fund had a positive fund balance of \$750,998 as of December 31, 2018; however, seven 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:

80 ditches with positive fund balances	\$	932,768
7 ditches with deficit fund balances		(181,770)
		\$ 750,998

B. Budget Amendments

The expenditure budget in the Building Capital Projects Fund was amended as follows:

Original Budget	Increase (Decrease)	Final Budget
\$ 137,000	\$ 132,000	\$ 269,000

C. Excess of Expenditures Over Appropriations

For the year ended December 31, 2018, the Building Capital Projects Fund's expenditures exceeded appropriations by \$262,438. The expenditures in excess of budget were funded by available fund balance.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net position	
Governmental activities	
Cash and pooled investments	\$ 10,490,054
Business-type activities	
Cash and pooled investments	338,771
Cash and pooled investments – restricted assets	1,890,992
Statement of fiduciary net position	
Agency funds	
Cash and pooled investments	<u>272,414</u>
 Total Cash and Investments	 <u>\$ 12,992,231</u>

a. Deposits

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

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

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County has adopted a policy for custodial credit risk by obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law. As of December 31, 2018, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

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

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

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.

At December 31, 2018, the County had the following recurring fair value measurements.

	December 31, 2018	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	\$ 832,483	\$ -	\$ 832,483	\$ -
Negotiable certificates of deposit	6,409,413	-	6,409,413	-
Total Investments Included in the Fair Value Hierarchy	<u>\$ 7,241,896</u>	<u>\$ -</u>	<u>\$ 7,241,896</u>	<u>\$ -</u>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Fair Value of Investments (Continued)

Debt securities 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

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Custodial Credit Risk (Continued)

permitting brokers that 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, 2018, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk

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

The following table presents the County's cash and investment balances at December 31, 2018, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk Over 5% of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
	Credit Rating	Rating Agency			
U.S. government agency securities					
Federal National Mortgage Association note	AA	S&P		10/09/2019	\$ 112,606
Federal National Mortgage Association note (1)	AA+	S&P		08/24/2021	198,226
Total Federal National Mortgage Association notes			N/A		\$ 310,832
Federal Home Loan Mortgage Corporation notes					
Federal Home Loan Mortgage Corporation note (1)	AA+	S&P		09/30/2021	\$ 99,511
Federal Home Loan Mortgage Corporation note (1)	AA+	S&P		10/28/2021	99,425
Federal Home Loan Mortgage Corporation note (1)	AA+	S&P		10/27/2023	98,954
Total Federal Home Loan Mortgage Corporation notes			N/A		\$ 297,890
Federal Home Loan Bank bonds					
Federal Home Loan Bank bond (1)	AA+	S&P		02/22/2021	\$ 124,889
Federal Home Loan Bank bond (1)	AA+	S&P		06/16/2021	98,872
Total Federal Home Loan Bank bonds			N/A		\$ 223,761

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration	Interest	Carrying (Fair) Value
	Credit Rating	Rating Agency	Risk Over 5% of Portfolio	Rate Risk Maturity Date	
Negotiable certificates of deposit with brokers	N/A	N/A	N/A	Various	\$ 6,409,413
Total investments					\$ 7,241,896
Checking					4,623,985
Savings					1,025,000
Petty cash and change funds					4,350
Certificates of deposit					97,000
Total Cash and Investments					\$ 12,992,231

(1) – These securities have step provisions, which could result in the notes being called prior to maturity.  
N/A – Not Applicable  
S&P – Standard & Poor’s

2. Receivables

Receivables as of December 31, 2018, for the County’s governmental activities and business-type activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 79,441	\$ -
Special assessments – delinquent	33,728	-
Special assessments – noncurrent	1,164,873	973,709
Accounts	68,288	-
Interest	4,063	-
Loans	118,607	108,413
Due from other governments	1,772,357	-
Total Governmental Activities	\$ 3,241,357	\$ 1,082,122
Business-Type Activities		
Accounts	\$ 49,621	\$ -

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

Details on Loans Receivable

In 1989, Cottonwood County began a Seed Capital Loan Program with funds received from the Blandin Foundation, the Southwest Minnesota Initiative Fund, and local governments to provide low-interest, flexible-term loans for the development of new businesses or the expansion of existing ones. On December 17, 2013, the County Board approved the issuance of a \$15,000 loan to Donna Albrecht to be repaid at \$150 per month at 1.25 percent interest for five years, with a final balloon payment. At December 31, 2018, the outstanding loan balance was \$6,124.

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, 2018, the outstanding loan balance was \$112,024.

On February 24, 2016, the County Board approved the issuance of a \$5,500 loan to Plum Creek Market to be repaid at \$156 per month at 1.25 percent interest for three years. At December 31, 2018, the outstanding loan balance was \$459.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2018, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 321,124	\$ -	\$ -	\$ 321,124
Right-of-way	796,481	-	-	796,481
Construction in progress	-	886,275	-	886,275
Total capital assets not depreciated	<u>\$ 1,117,605</u>	<u>\$ 886,275</u>	<u>\$ -</u>	<u>\$ 2,003,880</u>
Capital assets depreciated				
Buildings	\$ 5,079,780	\$ 434,033	\$ -	\$ 5,513,813
Machinery and equipment	6,827,572	428,533	557,343	6,698,762
Infrastructure	69,021,500	2,536,827	-	71,558,327
Total capital assets depreciated	<u>\$ 80,928,852</u>	<u>\$ 3,399,393</u>	<u>\$ 557,343</u>	<u>\$ 83,770,902</u>
Less: accumulated depreciation for				
Buildings	\$ 2,835,984	\$ 114,268	\$ -	\$ 2,950,252
Machinery and equipment	3,930,142	474,947	441,109	3,963,980
Infrastructure	21,826,539	1,264,856	-	23,091,395
Total accumulated depreciation	<u>\$ 28,592,665</u>	<u>\$ 1,854,071</u>	<u>\$ 441,109</u>	<u>\$ 30,005,627</u>
Total capital assets depreciated, net	<u>\$ 52,336,187</u>	<u>\$ 1,545,322</u>	<u>\$ 116,234</u>	<u>\$ 53,765,275</u>
Governmental Activities Capital Assets, Net	<u>\$ 53,453,792</u>	<u>\$ 2,431,597</u>	<u>\$ 116,234</u>	<u>\$ 55,769,155</u>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 163,882	\$ 85,704	\$ -	\$ 249,586
Capital assets depreciated				
Buildings	\$ 52,731	\$ -	\$ -	\$ 52,731
Land improvements	2,386,204	-	-	2,386,204
Machinery and equipment	995,726	-	-	995,726
Total capital assets depreciated	\$ 3,434,661	\$ -	\$ -	\$ 3,434,661
Less: accumulated depreciation for				
Buildings	\$ 26,979	\$ 968	\$ -	\$ 27,947
Land improvements	2,116,258	53,087	-	2,169,345
Machinery and equipment	366,681	90,456	-	457,137
Total accumulated depreciation	\$ 2,509,918	\$ 144,511	\$ -	\$ 2,654,429
Total capital assets depreciated, net	\$ 924,743	\$ (144,511)	\$ -	\$ 780,232
Business-Type Activities				
Capital Assets, Net	\$ 1,088,625	\$ (58,807)	\$ -	\$ 1,029,818

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

Governmental Activities	
General government	\$ 71,171
Public safety	122,723
Highways and streets, including depreciation of infrastructure assets	1,646,060
Conservation of natural resources	6,807
Culture and recreation	3,364
Sanitation	3,946
Total Depreciation Expense – Governmental Activities	<u>\$ 1,854,071</u>
Business-Type Activities	
Landfill	<u>\$ 144,511</u>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2018, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
Road and Bridge Special Revenue	General	\$ 2,436

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

2. Advances To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Ditch Special Revenue	\$ 334,451

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.

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2018, consisted of the following:

Transfers to Building Special Revenue Fund from General Fund	\$ 600,000	Building projects
Transfers to Landfill Enterprise Fund from General Fund	36,062	Interest distribution
Total Interfund Transfers	\$ 636,062	

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2018, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	\$ 288,394	\$ 23,088
Salaries	121,432	3,512
Contracts	55,170	-
Due to other governments	86,024	-
Total Payables	\$ 551,020	\$ 26,600

2. Construction Commitments

The County has active construction projects as of December 31, 2018. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Road and Bridge Special Revenue Fund		
SAP 017-633-001	\$ 55,974	\$ 269,026
SAP 017-599-088	193,081	11,573
SAP 017-607-020	910,323	112,654
Total	\$ 1,159,378	\$ 393,253

3. Capital Lease

The County has entered into a capital lease agreement to finance equipment for the Highway Department. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The lease is as follows at December 31, 2018:

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

3. Capital Lease (Continued)

<u>Capital Lease</u>	<u>Final Maturity</u>	<u>Installment Amount</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2018</u>
2017 John Deere motor graders	2022	\$ 84,376	3.54	\$ 379,866	<u>\$ 309,172</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2018, were as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2019	\$ 84,376
2020	84,376
2021	84,376
2022	<u>84,377</u>
Total minimum lease payments	\$ 337,505
Less: amount representing interest	<u>(28,333)</u>
Present Value of Minimum Lease Payments	<u>\$ 309,172</u>

4. Long-Term Debt

Governmental Activities

Bonds Payable

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Average Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2018</u>
Special assessment bonds with government commitment					
2011 G.O. Drainage Refunding Bonds	2020	\$105,000 - \$110,000	2.05	<u>\$ 1,090,000</u>	\$ 215,000
Add: unamortized premium					<u>2,829</u>
Total Governmental Activities, Net					<u>\$ 217,829</u>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

4. Long-Term Debt

Governmental Activities (Continued)

Loans Payable

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

5. Debt Service Requirements

Debt service requirements at December 31, 2018, were as follows:

Governmental Activities

Year Ending December 31	Special Assessment Bonds		Loans Payable*	
	Principal	Interest	Principal	Interest
2019	\$ 110,000	\$ 3,490	\$ 146,044	\$ 6,652
2020	105,000	1,181	165,769	5,386
2021	-	-	157,657	4,158
2022	-	-	151,034	3,132
2023	-	-	142,887	2,155
2024 - 2028	-	-	491,111	2,724
Total	<u>\$ 215,000</u>	<u>\$ 4,671</u>	<u>\$ 1,254,502</u>	<u>\$ 24,207</u>

\*The debt service requirements for a loan from the Minnesota Pollution Control Agency of \$23,810 are not known as of December 31, 2018.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2018, was as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable (fund liquidating the debt)					
2011 G.O. Drainage Refunding Bonds	\$ 330,000	\$ -	\$ 115,000	\$ 215,000	\$ 110,000
Add: unamortized premium	5,430	-	2,601	2,829	-
<b>Total bonds payable</b>	<b>\$ 335,430</b>	<b>\$ -</b>	<b>\$ 117,601</b>	<b>\$ 217,829</b>	<b>\$ 110,000</b>
Loans payable	1,109,634	291,166	122,488	1,278,312	146,044
Capital lease	379,866	-	70,694	309,172	73,240
Compensated absences	642,103	423,011	398,145	666,969	80,837
<b>Governmental Activities Long-Term Liabilities</b>	<b>\$ 2,467,033</b>	<b>\$ 714,177</b>	<b>\$ 708,928</b>	<b>\$ 2,472,282</b>	<b>\$ 410,121</b>

For governmental activities, drainage bonds are generally liquidated by the Ditch Special Revenue Fund, loans are generally liquidated by the General Fund, and capital leases are generally liquidated by the Road and Bridge Special Revenue Fund.

Business-Type Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Estimated liability for landfill closure and postclosure care	\$ 1,477,044	\$ 149,164	\$ -	\$ 1,626,208	\$ -
Compensated absences	26,573	9,952	7,546	28,979	3,512
<b>Business-Type Activities Long-Term Liabilities</b>	<b>\$ 1,503,617</b>	<b>\$ 159,116</b>	<b>\$ 7,546</b>	<b>\$ 1,655,187</b>	<b>\$ 3,512</b>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

7. Deferred Inflows of Resources – Unavailable Revenue

Deferred inflows of resources as of December 31, 2018, for the County's governmental funds are as follows:

	<u>Unavailable Revenue</u>
Delinquent property taxes	\$ 79,441
Special assessments receivable, delinquent and noncurrent	1,198,601
Highway allotments that do not provide current financial resources	<u>1,526,730</u>
Total Governmental Funds	<u>\$ 2,804,772</u>

8. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the County Board reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$1,626,208 landfill closure and postclosure care liability at December 31, 2018, represents the cumulative amount reported to date based on the use of 73 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$605,955 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2018.

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, 2018, the County has

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

8. Landfill Closure and Postclosure Care Costs (Continued)

\$1,890,992 in assets restricted for these purposes. Cottonwood County expects that future inflation costs will be paid from investment earnings on these annual contributions. However, if investment earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws and regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

D. Pension Plans

1. Defined Benefit Pension Plans

a. Plan Description

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

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 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.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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3. Detailed Notes on All Funds

D. Pension Plans

1. Defined Benefit Pension Plans

a. Plan Description (Continued)

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 5.00 percent for each year of service until fully vested after 20 years.

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

b. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. General Employees Plan and Police and Fire Plan benefit recipients receive a future annual 1.00 percent for the post-retirement benefit increase, while Correctional Plan benefit recipients receive 2.50 percent. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will be 2.50 percent. If, after reverting to a 2.50 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.00 percent.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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3. Detailed Notes on All Funds

D. Pension Plans

1. Defined Benefit Pension Plans

b. Benefits Provided (Continued)

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

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

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

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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3. Detailed Notes on All Funds

D. Pension Plans

1. Defined Benefit Pension Plans (Continued)

c. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Plan members were required to contribute 6.50 percent of their annual covered salary in 2018. Police and Fire Plan members were required to contribute 10.80 percent of their annual covered salary in 2018. Correctional Plan members were required to contribute 5.83 percent of their annual covered salary in 2018.

In 2018, the County was required to contribute the following percentages of annual covered salary:

General Employees Plan – Coordinated Plan members	7.50%
Police and Fire Plan	16.20
Correctional Plan	8.75

The employee and employer contribution rates did not change from the previous year.

The County's contributions for the year ended December 31, 2018, to the pension plans were:

General Employees Plan	\$ 227,619
Police and Fire Plan	117,506
Correctional Plan	55,040

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

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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3. Detailed Notes on All Funds

D. Pension Plans

1. Defined Benefit Pension Plans (Continued)

d. Pension Costs

General Employees Plan

At December 31, 2018, the County reported a liability of \$2,424,297 for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the County's proportion was 0.0437 percent. It was 0.0455 percent measured as of June 30, 2017. The County recognized pension expense of \$227,225 for its proportionate share of the General Employees Plan's pension expense.

The County also recognized \$18,572 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$16 million to the General Employees Plan for the fiscal years ended June 30, 2018 and 2019, and \$6 million thereafter, through calendar year 2031.

The County's proportionate share of the net pension liability	\$ 2,424,297
State of Minnesota's proportionate share of the net pension liability associated with the County	<u>79,638</u>
Total	<u>\$ 2,503,935</u>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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3. Detailed Notes on All Funds

D. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

General Employees Plan (Continued)

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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 66,692	\$ 71,515
Changes in actuarial assumptions	234,232	280,075
Difference between projected and actual investment earnings	-	258,934
Changes in proportion	75,667	107,777
Contributions paid to PERA subsequent to the measurement date	113,840	-
Total	\$ 490,431	\$ 718,301

The \$113,840 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2019	\$ 78,652
2020	(139,449)
2021	(230,316)
2022	(50,597)

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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3. Detailed Notes on All Funds

D. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs (Continued)

Police and Fire Plan

At December 31, 2018, the County reported a liability of \$731,205 for its proportionate share of the Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the County's proportion was 0.0686 percent. It was 0.0710 percent measured as of June 30, 2017. The County recognized pension expense of \$93,090 for its proportionate share of the Police and Fire Plan's pension expense.

The County also recognized \$6,174 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. Legislation 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.

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:

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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3. Detailed Notes on All Funds

D. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

Police and Fire Plan (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 30,069	\$ 176,745
Changes in actuarial assumptions	914,371	1,113,233
Difference between projected and actual investment earnings	-	162,214
Changes in proportion	89,115	27,002
Contributions paid to PERA subsequent to the measurement date	59,154	-
Total	\$ 1,092,709	\$ 1,479,194

The \$59,154 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2019	\$ (6,920)
2020	(38,595)
2021	(98,643)
2022	(293,669)
2023	(7,812)

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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3. Detailed Notes on All Funds

D. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs (Continued)

Correctional Plan

At December 31, 2018, the County reported a liability of \$49,900 for its proportionate share of the Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the County's proportion was 0.3034 percent. It was 0.3100 percent measured as of June 30, 2017. The County recognized pension expense of (\$56,760) 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u>                    </u>	<u>                    </u>
Differences between expected and actual economic experience	\$ 2,582	\$ 5,450
Changes in actuarial assumptions	217,233	579,147
Difference between projected and actual investment earnings	-	62,939
Changes in proportion	55,184	14,108
Contributions paid to PERA subsequent to the measurement date	<u>27,443</u>	<u>-</u>
Total	<u>\$ 302,442</u>	<u>\$ 661,644</u>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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3. Detailed Notes on All Funds

D. Pension Plans

1. Defined Benefit Pension Plans

d. Pension Costs

Correctional Plan (Continued)

The \$27,443 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2019	\$ 24,115
2020	(202,470)
2021	(197,845)
2022	(10,445)

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2018, was \$263,555.

e. Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.50 percent per year
Active member payroll growth	3.25 percent per year
Investment rate of return	7.50 percent

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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3. Detailed Notes on All Funds

D. Pension Plans

1. Defined Benefit Pension Plans

e. Actuarial Assumptions (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1.25 percent for the General Employees Plan and 2.00 percent for the Correctional Plan. For the Police and Fire Plan, cost of living benefit increases for retirees are 1.00 percent as set by state statute.

Actuarial assumptions used in the June 30, 2018, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Plan was dated June 30, 2015. The experience study for the Police and Fire Plan was dated August 30, 2016. The experience study for the Correctional Plan was dated February 2012. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The long-term expected rate of return on pension plan investments is 7.50 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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3. Detailed Notes on All Funds

D. Pension Plans

1. Defined Benefit Pension Plans

e. Actuarial Assumptions (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	36%	5.10%
International stocks	17	5.30
Bonds (fixed income)	20	0.75
Alternative assets (private markets)	25	5.90
Cash	2	0.00

f. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2018, which remained consistent with 2017. 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, the Police and Fire Plan, and the Correctional Plan were projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

g. Changes in Actuarial Assumptions and Plan Provisions

The following changes in actuarial assumptions occurred in 2018:

General Employees Plan

- The mortality projection scale was changed from MP-2015 to 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.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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3. Detailed Notes on All Funds

D. Pension Plans

1. Defined Benefit Pension Plans

g. Changes in Actuarial Assumptions and Plan Provisions (Continued)

Police and Fire Plan

- The mortality projection scale was changed from MP-2016 to 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.

Correctional Plan

- The single discount rate was changed from 5.96 percent per annum to 7.50 percent per annum.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

D. Pension Plans

1. Defined Benefit Pension Plans

g. Changes in Actuarial Assumptions and Plan Provisions

Correctional Plan (Continued)

- The mortality projection scale was changed from MP-2016 to MP-2017.
- The assumed post-retirement benefit increase was changed from 2.50 percent per year to 2.00 percent per year.

h. Pension Liability Sensitivity

The following presents the County's proportionate share of the net pension liability calculated using the discount rate previously disclosed, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate 1.00 percentage point lower or 1.00 percentage point higher than the current discount rate:

	Proportionate Share of the					
	General Employees Plan		Police and Fire Plan		Correctional Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	6.50%	\$ 3,939,793	6.50%	\$ 1,567,750	6.50%	\$ 427,060
Current	7.50	2,424,297	7.50	731,205	7.50	49,900
1% Increase	8.50	1,173,298	8.50	39,418	8.50	(251,816)

i. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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3. Detailed Notes on All Funds

D. Pension Plans (Continued)

2. Defined Contribution Plan

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by Cottonwood County during the year ended December 31, 2018, were:

	Employee	Employer
Contribution amount	\$ 6,676	\$ 6,676
Percentage of covered payroll	5.00%	5.00%

E. Other Postemployment Benefits (OPEB)

1. Plan Description

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

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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3. Detailed Notes on All Funds

E. Other Postemployment Benefits (OPEB)

1. Plan Description (Continued)

Elected County officials and their dependents and surviving spouses are entitled to one year of paid health insurance for every two years of service to the County as established and amended by County resolution. There is no maximum number of years of coverage for officials elected prior to 1995. Those elected between 1995 and February 4, 2004, are restricted to a maximum of six years of coverage, and those elected thereafter are restricted to a maximum of four years. As of January 1, 2018, 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 75. The OPEB plan does not issue a stand-alone financial report.

As of the December 31, 2016, actuarial valuation, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	7
Active plan participants	<u>75</u>
Total	<u>82</u>

2. Total OPEB Liability

The County's total OPEB liability of \$291,804 was determined by an actuarial valuation as of January 1, 2017, and was rolled forward to a measurement date of January 1, 2018. The OPEB liability is liquidated through the General Fund, the Landfill Enterprise Fund, and other governmental funds that have personal services.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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3. Detailed Notes on All Funds

E. Other Postemployment Benefits (OPEB)

2. Total OPEB Liability (Continued)

The total OPEB liability in the fiscal year-end December 31, 2018, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	3.25 percent, average wage inflation plus merit/productivity increases
Health care cost trend	7.50 percent, decreasing 0.50 percent per year to an ultimate rate of 4.50 percent

The current year discount rate is 3.44 percent, which is a change from the prior year rate of 3.81 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 RPH-2017 Total Dataset Mortality Table fully generational using Scale MP-2017.

The actuarial assumptions are currently based on a combination of historical information and the most recent actuarial valuation for PERA as of June 30, 2016.

3. Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at December 31, 2017	\$ 281,774
Changes for the year	
Service cost	\$ 23,659
Interest	11,251
Differences between expected and actual experience	(21,310)
Changes of benefit terms	9,791
Changes in assumptions	7,077
Benefit payments	(20,438)
Net change	\$ 10,030
Balance at December 31, 2018	\$ 291,804

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

E. Other Postemployment Benefits (OPEB) (Continued)

4. OPEB Liability Sensitivity

The following presents the total OPEB liability of the County, calculated using the discount rate previously disclosed, as well as what the County's total OPEB liability would be if it were calculated using a discount rate that is 1.00 percentage point lower or 1.00 percentage point higher than the current discount rate:

	1% Decrease (2.44%)	Discount Rate (3.44%)	1% Increase (4.44%)
Total OPEB liability	\$ 311,726	\$ 291,804	\$ 273,064

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 1.00 percentage point lower or 1.00 percentage point higher than the current health care cost trend rate:

	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	\$ 270,379	\$ 291,804	\$ 317,383

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

For the year ended December 31, 2018, the County recognized OPEB expense of \$50,736. The County reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 22,212
Changes in actuarial assumptions	64,464	-
Contributions made subsequent to the measurement date	27,088	-
Total	\$ 91,552	\$ 22,212

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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3. Detailed Notes on All Funds

E. Other Postemployment Benefits (OPEB)

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

The \$27,088 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended December 31</u>	<u>OPEB Expense Amount</u>
2019	\$ 6,035
2020	6,035
2021	6,035
2022	6,035
2023	6,035
Thereafter	12,077

6. Changes in Actuarial Assumptions and Plan Provisions

The following change in actuarial assumptions occurred in 2018:

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

The following change in plan provisions occurred in 2018:

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

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

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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4. Risk Management (Continued)

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 2018 and 2019. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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

5. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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

B. Joint Ventures

Counties Providing Technology

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

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

Financing is primarily from county member contributions. During 2018, Cottonwood County contributed \$198,206 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 2018 for the health and human services function were \$2,851,644.

**COTTONWOOD COUNTY  
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5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Des Moines Valley Health and Human Services (Continued)

Complete financial statements of DVHHS can be obtained at 11 Fourth Street, Windom, Minnesota 56111.

Cottonwood 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 Districts 173, 177, 991, and 2884; Western Community Action, Inc./Head Start; and Cottonwood County. The primary function of the Collaborative is to create opportunities to enhance family strengths and support through service coordination and access to informal communication.

The Collaborative is financed primarily by state grants. Control of the Collaborative is vested in the Governing Board consisting of ten members. The Governing Board is composed of one member from each Executive Committee organization. The DVHHS acts as the fiscal agent for the Collaborative. During 2018, Cottonwood County provided \$20,000 in funding to the Collaborative Integrated Fund.

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.

**COTTONWOOD COUNTY  
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5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Red Rock Rural Water System (Continued)

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 current assessment is \$1,000.

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

**COTTONWOOD COUNTY  
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5. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

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, Cottonwood, Jackson, Kandiyohi, Lac qui Parle, McLeod, Meeker, Nobles, Renville, Swift, and Yellow Medicine Counties; and Southwest Health and Human Services, representing Lincoln, Lyon, Murray, Pipestone, Redwood, and Rock Counties. The Board is headquartered in Windom, Minnesota. DVHHS acts as fiscal host.

The Board shall take actions and enters into such 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.

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

During 2018, Cottonwood County did not contribute to Southwestern Mental Health Center, Inc., for mental health services.

Complete financial statements for the Southwestern Mental Health Center, Inc., can be obtained at 216 East Luverne Street, Luverne, Minnesota 56156.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

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 Joint Powers 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 the appropriations from member parties and by state and federal grants. During 2018, Cottonwood County contributed \$2,510 to the Joint Powers Board.

**COTTONWOOD COUNTY  
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5. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Southern Prairie Community Care

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

DVHHS serves as fiscal agent and reports the transactions of Southern Prairie Community Care as an agency fund on its financial statements. Financial information can be obtained by contacting Southern Prairie Community Care, 607 West Main Street, PO Box 513, Marshall, Minnesota 56258.

Southwest Minnesota Private Industry Council, Inc.

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

SW MN PIC is governed by the Chief Elected Official Board, which is composed of one representative from each member county. Cottonwood County contributed \$2,625 to this organization in 2018.

Separate financial information can be obtained from the Lyon County Government Center, 607 West Main Street, Marshall, Minnesota 56258.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

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 2018, Cottonwood County made contributions of \$19,518 to the A.C.E. of Southwest Minnesota.

C. Jointly-Governed Organizations

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

Area II Minnesota River Basin Project

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

Greater Blue Earth River Basin Alliance

The Greater Blue Earth River Basin Alliance (GBERBA) establishes goals, policies, and objectives to protect and enhance land and water resources in the Greater Blue Earth River Basin. The Board consists of County Commissioners and members of the Soil and Water Conservation Districts. During the year, Cottonwood County made \$3,019 in contributions to the GBERBA.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

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. RCRCA consists of Brown, Cottonwood, Lincoln, Lyon, Murray, Pipestone, Redwood, and Yellow Medicine Counties. During the year, Cottonwood County made payments of \$9,300 to the RCRCA.

Heron Lake Watershed District

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

Region Five – Southwest Minnesota Homeland Security Emergency Management Organization

The Region Five – Southwest Minnesota Security Emergency Management Organization 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 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. During the year, Cottonwood County paid \$15 in membership fees.

Minnesota Criminal Justice Data Communications Network

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

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Sentencing to Service

Cottonwood County, in conjunction with other local governments, participates in the State of Minnesota's Sentencing to Service (STS) program. STS is a project of the State Department of Administration's Strive Toward Excellence in Performance (STEP) program. STEP's goal is a statewide effort to make positive improvements in public services. It gives the courts an alternative to jail or fines for the nonviolent offenders who can work on a variety of community or state projects. Private funding, funds from various foundations and initiative funds, as well as the Minnesota Departments of Corrections and Natural Resources, provide the funds needed to operate the STS program. Cottonwood County budgets for a percentage of this program. During the year, Cottonwood County contributed \$61,627 to the program.

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 \$3,585 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 2018.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**EXHIBIT A-1**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 8,959,695	\$ 8,959,695	\$ 8,821,640	\$ (138,055)
Special assessments	411,300	411,300	411,697	397
Licenses and permits	17,460	17,460	31,224	13,764
Intergovernmental	1,728,235	1,728,235	2,114,976	386,741
Charges for services	279,100	279,100	253,631	(25,469)
Fines and forfeits	12,000	12,000	14,012	2,012
Gifts and contributions	-	-	1,100	1,100
Investment earnings	80,000	80,000	128,878	48,878
Miscellaneous	253,843	253,843	414,144	160,301
<b>Total Revenues</b>	<b>\$ 11,741,633</b>	<b>\$ 11,741,633</b>	<b>\$ 12,191,302</b>	<b>\$ 449,669</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 455,483	\$ 455,483	\$ 451,337	\$ 4,146
Courts	29,950	29,950	139,220	(109,270)
Law library	11,000	11,000	563	10,437
Auditor/treasurer	492,337	492,337	465,632	26,705
Assessor	526,113	526,113	484,724	41,389
Office of technology	82,155	82,155	83,987	(1,832)
Elections	190,443	190,443	213,557	(23,114)
Attorney	396,173	396,173	395,087	1,086
Recorder	285,105	285,105	297,964	(12,859)
Building and plant	165,846	165,846	152,547	13,299
Veterans service officer	121,855	121,855	113,146	8,709
Other general government	551,118	552,423	828,960	(276,537)
<b>Total general government</b>	<b>\$ 3,307,578</b>	<b>\$ 3,308,883</b>	<b>\$ 3,626,724</b>	<b>\$ (317,841)</b>
<b>Public safety</b>				
Sheriff	\$ 1,427,535	\$ 1,427,535	\$ 1,479,910	\$ (52,375)
Emergency services	102,781	102,781	97,533	5,248
Coroner	12,000	12,000	35,496	(23,496)
Safety program	9,401	9,401	9,759	(358)
Jail	1,385,590	1,385,590	1,316,972	68,618
Probation and parole	145,966	145,966	163,519	(17,553)
<b>Total public safety</b>	<b>\$ 3,083,273</b>	<b>\$ 3,083,273</b>	<b>\$ 3,103,189</b>	<b>\$ (19,916)</b>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**EXHIBIT A-1  
(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Sanitation</b>				
Recycling	\$ 319,228	\$ 319,228	\$ 348,998	\$ (29,770)
<b>Health and human services</b>				
Environmental health	\$ 15,206	\$ 15,206	\$ 15,206	\$ -
<b>Culture and recreation</b>				
Parks	\$ 168,317	\$ 168,317	\$ 165,833	\$ 2,484
Regional library	78,470	78,470	78,470	-
Snow riders	60,000	60,000	59,932	68
<b>Total culture and recreation</b>	<u>\$ 306,787</u>	<u>\$ 306,787</u>	<u>\$ 304,235</u>	<u>\$ 2,552</u>
<b>Conservation of natural resources</b>				
Extension	\$ 130,419	\$ 130,419	\$ 128,745	\$ 1,674
Soil and water conservation	162,668	162,668	135,551	27,117
Water planning	115,358	115,358	98,235	17,123
Water quality loan program	218,086	218,086	317,015	(98,929)
Environmental services	82,289	82,289	103,680	(21,391)
<b>Total conservation of natural resources</b>	<u>\$ 708,820</u>	<u>\$ 708,820</u>	<u>\$ 783,226</u>	<u>\$ (74,406)</u>
<b>Intergovernmental</b>				
Health and human services	<u>\$ 2,851,644</u>	<u>\$ 2,851,644</u>	<u>\$ 2,851,644</u>	<u>\$ -</u>
<b>Debt service</b>				
Principal	\$ -	\$ -	\$ 122,488	\$ (122,488)
Interest	-	-	7,901	(7,901)
<b>Total debt service</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 130,389</u>	<u>\$ (130,389)</u>
<b>Total Expenditures</b>	<u>\$ 10,592,536</u>	<u>\$ 10,593,841</u>	<u>\$ 11,163,611</u>	<u>\$ (569,770)</u>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<u>\$ 1,149,097</u>	<u>\$ 1,147,792</u>	<u>\$ 1,027,691</u>	<u>\$ (120,101)</u>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

***EXHIBIT A-1  
(Continued)***

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 40,200	\$ 40,200	\$ -	\$ (40,200)
Transfers out	(40,200)	(40,200)	(636,062)	(595,862)
Loans issued	-	-	291,166	291,166
<b>Total Other Financing Sources (Uses)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (344,896)</u>	<u>\$ (344,896)</u>
<b>Net Change in Fund Balance</b>	<b>\$ 1,149,097</b>	<b>\$ 1,147,792</b>	<b>\$ 682,795</b>	<b>\$ (464,997)</b>
<b>Fund Balance – January 1</b>	<u>6,184,799</u>	<u>6,184,799</u>	<u>6,184,799</u>	<u>-</u>
<b>Fund Balance – December 31</b>	<u><u>\$ 7,333,896</u></u>	<u><u>\$ 7,332,591</u></u>	<u><u>\$ 6,867,594</u></u>	<u><u>\$ (464,997)</u></u>

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

*EXHIBIT A-2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,989,210	\$ 1,989,210	\$ 2,004,494	\$ 15,284
Licenses and permits	5,000	5,000	11,175	6,175
Intergovernmental	6,644,666	4,554,120	6,363,069	1,808,949
Charges for services	-	-	25,309	25,309
Miscellaneous	170,000	150,000	78,570	(71,430)
<b>Total Revenues</b>	<b>\$ 8,808,876</b>	<b>\$ 6,698,330</b>	<b>\$ 8,482,617</b>	<b>\$ 1,784,287</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 433,599	\$ 433,599	\$ 364,225	\$ 69,374
Maintenance	1,836,560	1,986,560	1,736,287	250,273
Construction	5,323,092	2,880,492	3,677,427	(796,935)
Equipment and maintenance shops	1,054,208	1,054,208	1,146,423	(92,215)
<b>Total highways and streets</b>	<b>\$ 8,647,459</b>	<b>\$ 6,354,859</b>	<b>\$ 6,924,362</b>	<b>\$ (569,503)</b>
<b>Intergovernmental</b>				
Highways and streets	<b>\$ 391,740</b>	<b>\$ 458,010</b>	<b>\$ 458,010</b>	<b>\$ -</b>
<b>Debt service</b>				
Principal	\$ 100,000	\$ 100,000	\$ 70,694	\$ 29,306
Interest	-	-	13,683	(13,683)
<b>Total debt service</b>	<b>\$ 100,000</b>	<b>\$ 100,000</b>	<b>\$ 84,377</b>	<b>\$ 15,623</b>
<b>Total Expenditures</b>	<b>\$ 9,139,199</b>	<b>\$ 6,912,869</b>	<b>\$ 7,466,749</b>	<b>\$ (553,880)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (330,323)</b>	<b>\$ (214,539)</b>	<b>\$ 1,015,868</b>	<b>\$ 1,230,407</b>
<b>Other Financing Sources (Uses)</b>				
Compensation for loss of capital assets	-	-	141,351	141,351
<b>Net Change in Fund Balance</b>	<b>\$ (330,323)</b>	<b>\$ (214,539)</b>	<b>\$ 1,157,219</b>	<b>\$ 1,371,758</b>
<b>Fund Balance – January 1</b>	<b>1,108,607</b>	<b>1,108,607</b>	<b>1,108,607</b>	<b>-</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>-</b>	<b>48,133</b>	<b>48,133</b>
<b>Fund Balance – December 31</b>	<b>\$ 778,284</b>	<b>\$ 894,068</b>	<b>\$ 2,313,959</b>	<b>\$ 1,419,891</b>

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

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

*EXHIBIT A-3*

**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS  
OTHER POSTEMPLOYMENT BENEFITS  
DECEMBER 31, 2018**

	<b>2018</b>	<b>2017</b>
<b>Total OPEB Liability</b>		
Service cost	\$ 23,659	\$ 8,999
Interest	11,251	7,658
Changes of benefit terms	9,791	-
Differences between expected and actual experience	(21,310)	(4,586)
Changes of assumption or other inputs	7,077	74,920
Benefit payments	(20,438)	(39,115)
<b>Net change in total OPEB liability</b>	<b>\$ 10,030</b>	<b>\$ 47,876</b>
<b>Total OPEB Liability – Beginning</b>	<b>281,774</b>	<b>233,898</b>
<b>Total OPEB Liability – Ending</b>	<b>\$ 291,804</b>	<b>\$ 281,774</b>
Covered-employee payroll	\$ 4,083,191	\$ 3,954,664
Total OPEB liability (asset) as a percentage of covered-employee payroll	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, 2018**

<b>Measurement Date</b>	<b>Employer's Proportion of the Net Pension Liability (Asset)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) (a)</b>	<b>State's Proportionate Share of the Net Pension Liability Associated with Cottonwood County (b)</b>	<b>Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)</b>	<b>Covered Payroll (c)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
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, 2018**

<b>Year Ending</b>	<b>Statutorily Required Contributions (a)</b>	<b>Actual Contributions in Relation to Statutorily Required Contributions (b)</b>	<b>Contribution (Deficiency) Excess (b - a)</b>	<b>Covered Payroll (c)</b>	<b>Actual Contributions as a Percentage of Covered Payroll (b/c)</b>
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, 2018**

<b>Measurement Date</b>	<b>Employer's Proportion of the Net Pension Liability (Asset)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) (a)</b>	<b>Covered Payroll (b)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
2018	0.0686 %	\$ 731,205	\$ 722,622	101.19 %	88.84 %
2017	0.0710	958,584	723,927	132.41	85.43
2016	0.0690	2,769,090	632,067	438.10	63.88
2015	0.0640	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, 2018**

<b>Year Ending</b>	<b>Statutorily Required Contributions (a)</b>	<b>Actual Contributions in Relation to Statutorily Required Contributions (b)</b>	<b>Contribution (Deficiency) Excess (b - a)</b>	<b>Covered Payroll (c)</b>	<b>Actual Contributions as a Percentage of Covered Payroll (b/c)</b>
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, 2018**

<b>Measurement Date</b>	<b>Employer's Proportion of the Net Pension Liability (Asset)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) (a)</b>	<b>Covered Payroll (b)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
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, 2018**

<b>Year Ending</b>	<b>Statutorily Required Contributions (a)</b>	<b>Actual Contributions in Relation to Statutorily Required Contributions (b)</b>	<b>Contribution (Deficiency) Excess (b - a)</b>	<b>Covered Payroll (c)</b>	<b>Actual Contributions as a Percentage of Covered Payroll (b/c)</b>
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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**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2018

1. General Budget Policies

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.

2. Budget Basis of Accounting

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

3. Budget Amendments

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

	Original Budget	Increase (Decrease)	Final Budget
General Fund	\$ 10,592,536	\$ 1,305	\$ 10,593,841
Road and Bridge Special Revenue Fund	9,139,199	(2,226,330)	6,912,869

The revenue budget in the Road and Bridge Special Revenue Fund was amended as follows:

	Original Budget	Increase (Decrease)	Final Budget
Road and Bridge Special Revenue Fund	\$ 8,808,876	\$ (2,110,546)	\$ 6,698,330

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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4. Excess of Expenditures Over Appropriations

The following funds had expenditures in excess of appropriations (the legal level of budgetary control) for the year ended December 31, 2018:

<u>Fund</u>	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 11,163,611	\$ 10,593,841	\$ 569,770
Road and Bridge Special Revenue Fund	7,466,749	6,912,869	553,880

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

5. 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.

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

The following change in actuarial assumptions occurred in 2018:

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

The following change in plan provisions occurred in 2018:

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

The following changes in actuarial assumptions occurred in 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.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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

- The retirement assumption has been updated to follow the Public Employees Retirement Association 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 8.00 percent decreasing by 0.50 percent annually to an ultimate rate of 4.50 percent.

7. 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

2018

- The mortality projection scale was changed from MP-2015 to 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.

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.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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

General Employees Retirement Plan

2017 (Continued)

- 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

2018

- The mortality projection scale was changed from MP-2016 to 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.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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

Public Employees Police and Fire Plan

2018 (Continued)

- 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 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**

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

Public Employees Police and Fire Plan

2017 (Continued)

- 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.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

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

Public Employees Local Government Correctional Service Retirement Plan

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 MP-2016 to MP-2017.
- The assumed post-retirement benefit increase was changed from 2.50 percent per year to 2.00 percent per year.

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 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.

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**SUPPLEMENTARY INFORMATION**

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**GOVERNMENTAL FUND**

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**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

*EXHIBIT B-1*

**BUDGETARY COMPARISON SCHEDULE  
BUILDING CAPITAL PROJECTS FUND  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 50,000	\$ 50,000	\$ 48,677	\$ (1,323)
Miscellaneous	<u>123,564</u>	<u>123,564</u>	<u>123,564</u>	<u>-</u>
<b>Total Revenues</b>	<b>\$ 173,564</b>	<b>\$ 173,564</b>	<b>\$ 172,241</b>	<b>\$ (1,323)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Buildings and plant	<u>137,000</u>	<u>269,000</u>	<u>531,438</u>	<u>(262,438)</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 36,564</b>	<b>\$ (95,436)</b>	<b>\$ (359,197)</b>	<b>\$ (263,761)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	<u>-</u>	<u>-</u>	<u>600,000</u>	<u>600,000</u>
<b>Net Change in Fund Balance</b>	<b>\$ 36,564</b>	<b>\$ (95,436)</b>	<b>\$ 240,803</b>	<b>\$ 336,239</b>
<b>Fund Balance – January 1</b>	<b><u>433,861</u></b>	<b><u>433,861</u></b>	<b><u>433,861</u></b>	<b><u>-</u></b>
<b>Fund Balance – December 31</b>	<b><u><u>\$ 470,425</u></u></b>	<b><u><u>\$ 338,425</u></u></b>	<b><u><u>\$ 674,664</u></u></b>	<b><u><u>\$ 336,239</u></u></b>

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**FIDUCIARY FUNDS**

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**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

*EXHIBIT C-1*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>AGENCY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 35,603	\$ 207,520	\$ 222,094	\$ 21,029
<b><u>Liabilities</u></b>				
Due to other governments	\$ 35,603	\$ 207,520	\$ 222,094	\$ 21,029
 <b><u>MORTGAGE REGISTRY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 4,619	\$ 129,521	\$ 130,394	\$ 3,746
<b><u>Liabilities</u></b>				
Due to other governments	\$ 4,619	\$ 129,521	\$ 130,394	\$ 3,746
 <b><u>STATE DEED TAX</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 9,877	\$ 188,577	\$ 174,032	\$ 24,422
<b><u>Liabilities</u></b>				
Due to other governments	\$ 9,877	\$ 188,577	\$ 174,032	\$ 24,422

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

*EXHIBIT C-1  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ 246,512</u>	<u>\$ 22,377,048</u>	<u>\$ 22,400,343</u>	<u>\$ 223,217</u>
<b><u>Liabilities</u></b>				
Due to other governments	<u>\$ 246,512</u>	<u>\$ 22,377,048</u>	<u>\$ 22,400,343</u>	<u>\$ 223,217</u>
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ 296,611</u>	<u>\$ 22,902,666</u>	<u>\$ 22,926,863</u>	<u>\$ 272,414</u>
<b><u>Liabilities</u></b>				
Due to other governments	<u>\$ 296,611</u>	<u>\$ 22,902,666</u>	<u>\$ 22,926,863</u>	<u>\$ 272,414</u>

## **SCHEDULE**

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**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

***EXHIBIT D-1***

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**Appropriations and Shared Revenue**

**State**

Highway users tax	\$ 5,562,578
County program aid	587,080
PERA aid	37,701
Disparity reduction aid	43,163
Police aid	87,001
Enhanced 911	83,374
Market value credit	281,714
Select Committee on Recycling and the Environment (SCORE)	67,729
Aquatic invasive species aid	56,970
Riparian protection aid	151,903
	151,903

**Total appropriations and shared revenue** **\$ 6,959,213**

**Reimbursement for Services**

Minnesota Department of Human Services	\$ 59,166
	59,166

**Payments**

**Local**

Payments in lieu of taxes	\$ 329,465
	329,465

**Grants**

**State**

Minnesota Department/Board/Office of	
Corrections	\$ 27,290
Natural Resources	118,810
Public Safety	4,478
Secretary of State	44,000
Transportation	396,121
Water and Soil Resources	47,994
Veterans Affairs	7,500
Pollution Control Agency	63,620
Supreme Court	14,844
	14,844

**Total state** **\$ 724,657**

**Federal**

Department of	
Homeland Security	\$ 1,200
Transportation	404,344
	404,344

**Total federal** **\$ 405,544**

**Total state and federal grants** **\$ 1,130,201**

**Total Intergovernmental Revenue** **\$ 8,478,045**

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JULIE BLAHA  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

### Independent Auditor's Report

Board of County Commissioners  
Cottonwood County  
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, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 7, 2019.

### **Internal Control Over Financial Reporting**

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

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of 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. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

### **Minnesota Legal Compliance**

The *Minnesota Legal Compliance Audit Guide for Counties*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the County's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the County has no tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that Cottonwood County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties*, except as described in the Schedule of Findings and Recommendations as item 2018-001. 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.

### **Other Matters**

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

## **Cottonwood County's Response to Findings**

Cottonwood County's responses to the legal compliance and management practices findings identified in our audit are described in the Corrective Action Plan. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

We noted a certain matter that we reported to management of Cottonwood County in a separate letter dated November 7, 2019.

### **Purpose of This Report**

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

*/s/Julie Blaha*

JULIE BLAHA  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

November 7, 2019

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**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

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

None.

**II. OTHER FINDINGS AND RECOMMENDATIONS**

**A. MINNESOTA LEGAL COMPLIANCE**

**ITEM ARISING THIS YEAR**

Finding Number 2018-001

**Contract Compliance**

**Criteria:** Pursuant to Minn. Stat. §§ 471.345, subd. 3, and 375.21, contracts estimated to exceed \$175,000 must be made using sealed bids solicited by public notice by advertising for bids in a qualified legal newspaper of the County or through the alternative dissemination of bids and requests as provided by Minn. Stat. § 331A.03. In addition, all contracts should be executed in writing in accordance with Minn. Stat. § 375.21, subd. 1.

**Condition:** The County did not advertise for bids when contracting for fuel and diesel purchases. In addition, a signed written contract for the fuel and diesel purchases could not be located.

**Context:** Starting in 2018, the County contracted for fuel purchases rather than purchasing fuel as needed. The contract period was from April 2018 through December 2019.

**Effect:** Noncompliance with Minn. Stat. §§ 471.345, subd. 3, and 375.21, subd. 1.

**Cause:** The County indicated it followed the normal fuel-buying process and did not realize it was required to advertise for bids or maintain a signed contract.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2018

**Recommendation:** We recommend the County implement procedures to ensure compliance with contracting requirements.

**View of Responsible Official:** Acknowledged

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 1996-006

County Ditch Deficit Fund Balances

**Criteria:** Individual ditch systems should be maintained with a positive fund balance to meet its financial obligations.

**Condition:** The County had individual ditch systems with individual deficit fund balances at December 31, 2018.

**Context:** As of December 31, 2018, seven of the 87 individual ditch systems had deficit fund balances, totaling \$181,770, which was a decrease in the deficit from the \$192,286 reported in the prior year.

Taking into consideration assessments that have been approved for collection in future years and long-term debt obligations, neither of which has been factored into the reported ditch system fund balance, the total deficit fund balances of the ditch systems increases to \$247,203.

**Effect:** Ditch systems with deficit fund balances indicate that measures have not been taken to ensure that an individual ditch system can meet financial obligations.

**Cause:** The County indicated there have been significant repair and construction costs for these ditches, and special assessments levied have not been sufficient to meet all obligations of the systems.

**COTTONWOOD COUNTY  
WINDOM, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2018**

Additionally, in some cases, for ditch systems with long-term debt obligations, interest earnings accumulated from prepaid assessments that were expected to cover a portion of the debt service costs have been insufficient due to low interest rates over the past several years.

**Recommendation:** We recommend the County eliminate the ditch system fund balance deficits by levying assessments to meet all current and long-term obligations of the individual ditch systems.

**View of Responsible Official:** Acknowledged

**III. PREVIOUSLY REPORTED ITEM RESOLVED**

2017-001 Audit Adjustments

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# Board of County Commissioners Cottonwood County

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**Chairperson:**

**Norman Holmen**  
Fourth District  
28606 County Road 1  
Comfrey, MN 56019  
507-877-3243

**Vice-Chairperson:**

**Kevin Stevens**  
Second District  
700 Plum Avenue  
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**Members:**

**Larry Anderson**  
First District  
29124 340<sup>th</sup> Avenue  
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**Donna Gravley**  
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**Tom Appel**  
Fifth District  
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Mt. Lake, MN 56159  
507-427-3825

**County Coordinator:**

**Kelly Thongvivong**  
900 Third Ave.  
Windom, MN 56101  
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## REPRESENTATION OF COTTONWOOD COUNTY WINDOM, MINNESOTA

### CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2018

**Finding Number: 2018-001**  
**Finding Title: Contract Compliance**

Name of Contact Person Responsible for Corrective Action:

Nick Klisch, Public Works Director

Corrective Action Planned:

The County will formally advertise for fuel bids and execute a fuel supply contract.

Anticipated Completion Date:

Bid letting of the new contract will be November 18, 2019.

**Finding Number: 1996-006**  
**Finding Title: County Ditch Deficit Fund Balances**

Name of Contact Person Responsible for Corrective Action:

Tom Appel, Cottonwood County Ditch Authority Chairperson

Corrective Action Planned:

The County will increase yearly ditch assessments to correct the deficit balances.

Anticipated Completion Date:

Two years.

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# Board of County Commissioners Cottonwood County

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**Chairperson:**

**Norman Holmen**  
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**Vice-Chairperson:**

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## REPRESENTATION OF COTTONWOOD COUNTY WINDOM, MINNESOTA

### SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2018

**Finding Number: 1996-006**  
**Finding Title: County Ditch Deficit Fund Balances**

**Summary of Condition:** The County had individual ditch systems with individual deficit fund balances at December 31, 2017.

**Summary of Corrective Action Previously Reported:** The County will increase yearly ditch assessments to correct the deficit balances.

**Status:** Not Corrected. The County continued to try to bring all ditch fund balances up to positive levels and should have this accomplished within three years.

Was corrective action taken significantly different than the action previously reported?

Yes \_\_\_\_\_ No   X  

**Finding Number: 2017-001**  
**Finding Title: Audit Adjustments**

**Summary of Condition:** Material audit adjustments were identified which resulted in significant changes to Cottonwood County's financial statements.

**Summary of Corrective Action Previously Reported:** Improve internal controls to detect misstatements to the financial statements.

**Status:** Fully Corrected. Corrective action was taken.

Was corrective action taken significantly different than the action previously reported?

Yes \_\_\_\_\_ No  X