

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

COTTONWOOD COUNTY
WINDOM, MINNESOTA

YEAR ENDED DECEMBER 31, 2014

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 150 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 700 public pension funds; and

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

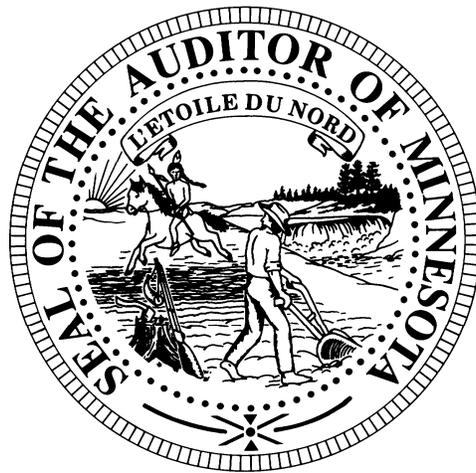
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

Year Ended December 31, 2014



**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
2014

Office	Name	Term Expires
Commissioners		
1st District	Jim Schmidt ¹	January 2015
2nd District	Kevin Stevens	January 2017
3rd District ³	Tom White	January 2015
4th District	Norm Holmen ²	January 2017
5th District ⁴	John Oeltjenbruns	January 2015
Officials		
Elected		
Attorney	Nicholas Anderson	January 2015
Auditor/Treasurer	Jan Johnson	January 2015
County Recorder	Kathleen Kretsch	January 2015
Sheriff	Jason Purrington	January 2015
Appointed		
Assessor	Gale Bondhus	December 31, 2016
Highway Engineer	JinYeene Neumann	May 2018
Veterans Service Officer	Todd Dibble	Indefinite
Emergency Services Director	Kim Hall	Indefinite

¹Chair 2014

²Chair 2015

³Donna Gravley was elected to represent District 3 and took office in January 2015.

⁴Tom Appel was elected to represent District 5 and took office in January 2015.

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REBECCA OTTO
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, 2014, 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 of 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, 2014, 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 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 October 7, 2015, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cottonwood County's internal control over financial reporting and compliance.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

October 7, 2015

/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, 2014
(Unaudited)**

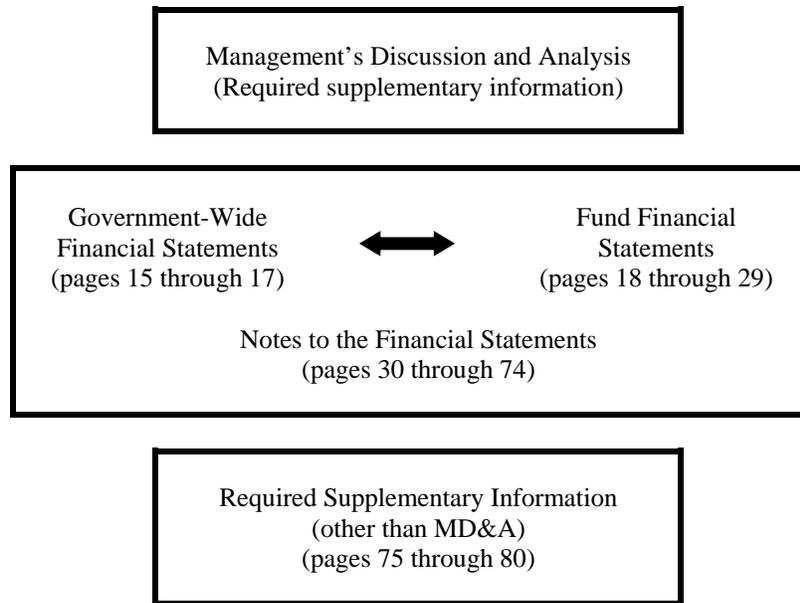
Cottonwood County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2014. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements (beginning on page 15).

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is \$57,222,331, of which \$47,423,752 is the net investment in capital assets, leaving \$3,904,948 of the governmental activities' net position restricted for specific uses and \$5,893,631 as unrestricted.
- Business-type activities have a total net position of \$1,442,892, of which \$834,446 is the net investment in capital assets, leaving \$431,685 of the business-type net position restricted for specific uses and \$176,761 as unrestricted.
- Cottonwood County's net position decreased by \$1,239,304 for the year ended December 31, 2014. This decrease is comprised of \$1,187,159 in the governmental activities' net position and a decrease of \$52,145 in business-type activities' net position.
- The net cost of governmental activities was \$9,899,947 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$8,712,788.
- Governmental funds' fund balances decreased by \$1,613,947. This net decrease was due mainly to the loss of the Family Service Fund (formed Joint Powers group with Jackson County).

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 (on pages 15 through 17) provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements start on page 18. 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 page 15. 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 and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the County's net 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 page 18. 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 separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on pages 28 and 29, respectively. We exclude these activities from the County's other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Other Information

In addition to the basic financial statements and notes, this report also presents certain required supplementary information concerning Cottonwood County's progress in funding its obligation to provide other postemployment benefits to its employees. Required supplementary information can be found on pages 75 through 80.

THE COUNTY AS A WHOLE

The County's combined net position is \$58,665,223. Looking at the net position and changes in net position of governmental and business-type activities separately, however, two different stories emerge. 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

	2014			2013
	Governmental Activities	Business-Type Activities	Total	
Assets				
Current and other assets	\$ 12,927,261	\$ 2,011,209	\$ 14,938,470	\$ 15,275,531
Capital assets	47,754,880	1,090,450	48,845,330	50,091,661
Total Assets	\$ 60,682,141	\$ 3,101,659	\$ 63,783,800	\$ 65,367,192
Deferred Outflows of Resources	\$ 13,654	\$ -	\$ 13,654	\$ 18,207
Liabilities				
Long-term liabilities	\$ 2,507,027	\$ 1,638,062	\$ 4,145,089	\$ 4,559,701
Other liabilities	966,437	20,705	987,142	921,171
Total Liabilities	\$ 3,473,464	\$ 1,658,767	\$ 5,132,231	\$ 5,480,872
Net Position				
Net investment in capital assets	\$ 47,423,752	\$ 834,446	\$ 48,258,198	\$ 49,341,421
Restricted	3,904,948	431,685	4,336,633	3,282,957
Unrestricted	5,893,631	176,761	6,070,392	7,280,149
Total Net Position	\$ 57,222,331	\$ 1,442,892	\$ 58,665,223	\$ 59,904,527

Net position of the County's governmental activities was \$57,222,331. Unrestricted net position--the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements--was \$5,893,631 at the end of the year. The net position of business-type activities was \$1,442,892.

Table 2
Changes in Net Position
(in Thousands)

	2014			2013
	Governmental Activities	Business-Type Activities	Total	
Revenues				
Program revenues				
Fees, fines, and charges	\$ 1,026	\$ 529	\$ 1,555	\$ 2,185
Operating grants and contributions	4,127	-	4,127	5,945
Capital grants and contributions	29	-	29	593
General revenues				
Property taxes	8,088	-	8,088	7,818
Other taxes	379	-	379	266
Grants, gifts, and miscellaneous	979	-	979	801
Total Revenues	\$ 14,628	\$ 529	\$ 15,157	\$ 17,608
Expenses				
General government	\$ 2,991	\$ -	\$ 2,991	\$ 2,774
Public safety	2,695	-	2,695	2,241
Highways and streets	4,781	-	4,781	4,911
Sanitation	259	-	259	225
Health and human services	3,489	-	3,489	5,002
Culture and recreation	190	-	190	179
Conservation of natural resources	625	-	625	672
Interest	53	-	53	55
Landfill	-	606	606	697
Total Expenses	\$ 15,083	\$ 606	\$ 15,689	\$ 16,756
Increase (decrease) before transfers	\$ (455)	\$ (77)	\$ (532)	\$ 852
Transfers (includes joint powers)	(732)	25	(707)	-
Increase (decrease) in net position	\$ (1,187)	\$ (52)	\$ (1,239)	\$ 852
Net position - January 1	\$ 58,409	\$ 1,495	\$ 59,904	\$ 59,052
Net position - December 31	\$ 57,222	\$ 1,443	\$ 58,665	\$ 59,904

The County's activities decreased net position by 2.07 percent (\$58,665,223 for 2014 compared to \$59,904,527 for 2013).

TOTAL COUNTY REVENUE

Governmental Activities

Revenues for the County's governmental activities (see Table 2) were \$14,628,492, while total expenses were \$15,082,811, and transfers out were \$732,840. This reflects a \$1,187,159 decrease (\$707,878 for the transfer of human services operations to Des Moines Valley Health and Human Services (DVHHS) Joint Powers) in net position for the year ended December 31, 2014.

Business-Type Activities

Revenues of the County's business-type activities (see Table 2) were \$529,083, transfers in were \$24,962, and expenses were \$606,190. This reflects a \$52,145 decrease in net position for the year ending December 31, 2014.

Governmental Activities' Expenses

The cost of the County's governmental activities this year was \$15,082,811. However, as shown in the Statement of Activities on pages 16 and 17, the amount that taxpayers ultimately financed for these activities through County taxes was \$9,899,947 because some of the cost was paid by those who directly benefited from the programs (\$1,026,409) or by other governments and organizations that subsidized certain programs with grants and contributions (\$4,156,455).

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)

	2014	
	Total Cost of Services	Net Cost of Services
Highways and streets	\$ 4,781	\$ 1,061
Health and human services	3,489	3,489
General government	2,991	2,629
Public safety	2,695	2,369
Conservation of natural resources	625	201
All others	502	151
Totals	<u>\$ 15,083</u>	<u>\$ 9,900</u>

THE COUNTY'S FUNDS

As the County completed the year, its governmental funds (as presented in the Balance Sheet on pages 18 through 19) reported a combined fund balance of \$8,053,807, which is below last year's total of \$9,667,754. The governmental funds' change in fund balance (a decrease of \$1,613,947 for 2014) represents a 16.7 percent decrease in governmental fund balances. Most of the governmental funds' decrease is due to the transfer of the Family Service fund balance to the new Joint Powers Entity, DVHHS and the expenditure of cash assets to fund the new joint powers reserves.

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 \$1,099,450 above the final budget amounts. The major reason for variances of actual expenditures from final budget in this case are the unbudgeted expenditures for Health and Human Services, General Government, and Public Safety.

On the other hand, resources available for appropriation were \$204,868 above the final budgeted amount. Increased state and federal reimbursements helped push revenues above expected levels.

Road and Bridge Budgetary Highlights

The current year to budget variances are due to the County having three bridge projects where bids came in 50 percent above the engineer's estimates. All bids were rejected, and the projects were not done in the current year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2014, the County had \$48,845,330 invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment. (See Table 4.) This amount represents a net decrease (including additions and deductions) of \$1,246,331, or 2.5 percent, over last year.

Table 4
Changes in Capital Assets During 2014

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 315,824	\$ -	\$ -	\$ 315,824
Right-of-way	796,481	-	-	796,481
Total capital assets not depreciated	\$ 1,112,305	\$ -	\$ -	\$ 1,112,305
Capital assets depreciated				
Buildings	\$ 4,886,385	\$ -	\$ -	\$ 4,886,385
Machinery and equipment	6,369,024	361,065	347,057	6,383,032
Infrastructure	59,871,491	233,418	-	60,104,909
Total capital assets depreciated	\$ 71,126,900	\$ 594,483	\$ 347,057	\$ 71,374,326
Less: accumulated depreciation for				
Buildings	\$ 2,500,986	\$ 101,275	\$ -	\$ 2,602,261
Machinery and equipment	4,068,892	397,911	290,119	4,176,684
Infrastructure	16,790,696	1,162,110	-	17,952,806
Total accumulated depreciation	\$ 23,360,574	\$ 1,661,296	\$ 290,119	\$ 24,731,751
Total capital assets depreciated, net	\$ 47,766,326	\$ (1,066,813)	\$ 56,938	\$ 46,642,575
Governmental Activities Capital Assets, Net	\$ 48,878,631	\$ (1,066,813)	\$ 56,938	\$ 47,754,880

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 163,882	\$ -	\$ -	\$ 163,882
Capital assets depreciated				
Buildings	\$ 23,700	\$ -	\$ -	\$ 23,700
Land improvements	2,363,085	-	-	2,363,085
Machinery and equipment	809,481	15,456	23,810	801,127
Total capital assets depreciated	\$ 3,196,266	\$ 15,456	\$ 23,810	\$ 3,187,912
Less: accumulated depreciation for				
Buildings	\$ 22,976	\$ 724	\$ -	\$ 23,700
Land improvements	1,907,763	51,546	-	1,959,309
Machinery and equipment	216,379	85,766	23,810	278,335
Total accumulated depreciation	\$ 2,147,118	\$ 138,036	\$ 23,810	\$ 2,261,344
Total capital assets depreciated, net	\$ 1,049,148	\$ (122,580)	\$ -	\$ 926,568
Business-Type Activities Capital Assets, Net	\$ 1,213,030	\$ (122,580)	\$ -	\$ 1,090,450

(Unaudited)

Page 12

The County's fiscal year 2014 capital budget called for it to spend \$1,820,000 on highway and bridge construction and \$340,000 on road and bridge equipment purchases, all to be financed with resources on hand in existing County funds.

Debt

At the end of the current fiscal year, the County had total outstanding debt of \$2,179,744, versus \$2,490,885 last year--a decrease of 12.49 percent--as shown in Table 5.

Table 5
Changes in Outstanding Debt During 2014

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)	\$ 930,000	\$ -	\$ 160,000	\$ 770,000	\$ 160,000
Add: unamortized premium	15,841	-	2,601	13,240	-
Total bonds payable	\$ 945,841	\$ -	\$ 162,601	\$ 783,240	\$ 160,000
Loans payable	800,992	147,557	139,177	809,372	133,519
Capital lease	407,314	-	76,186	331,128	78,583
Governmental Activities Debt	<u>\$ 2,154,147</u>	<u>\$ 147,557</u>	<u>\$ 377,964</u>	<u>\$ 1,923,740</u>	<u>\$ 372,102</u>

Business-Type Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Loans Payable	<u>\$ 336,738</u>	<u>\$ -</u>	<u>\$ 80,734</u>	<u>\$ 256,004</u>	<u>\$ 34,252</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 (\$3,376,771,400) in the County. The County's outstanding net debt (\$4,145,089) is significantly below this state-imposed limit (\$101,303,142).

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 2015 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 2015 are budgeted to increase 2.71 percent from 2014.
- Property taxes levied have increased 8.00 percent for 2015.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the County Auditor/Treasurer, Jan Johnson, Cottonwood County Courthouse, 900 - 3rd Avenue, Windom, Minnesota 56101; (507) 831-1342.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2014**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Cash and pooled investments	\$ 8,462,326	\$ 186,923	\$ 8,649,249
Receivables	4,068,316	39,474	4,107,790
Internal balances	(190)	190	-
Inventories	316,869	-	316,869
Restricted assets			
Cash and pooled investments	-	1,784,622	1,784,622
Net OPEB asset	79,940	-	79,940
Capital assets			
Non-depreciable capital assets	1,112,305	163,882	1,276,187
Depreciable capital assets - net of accumulated depreciation	46,642,575	926,568	47,569,143
Total Assets	\$ 60,682,141	\$ 3,101,659	\$ 63,783,800
<u>Deferred Outflows of Resources</u>			
Deferred amount on refunding	\$ 13,654	\$ -	\$ 13,654
<u>Liabilities</u>			
Accounts payable and other current liabilities	\$ 875,388	\$ 20,705	\$ 896,093
Accrued interest payable	15,133	-	15,133
Unearned revenue	75,916	-	75,916
Long-term liabilities			
Due within one year	436,789	34,252	471,041
Due in more than one year	2,070,238	1,603,810	3,674,048
Total Liabilities	\$ 3,473,464	\$ 1,658,767	\$ 5,132,231
<u>Net Position</u>			
Net investment in capital assets	\$ 47,423,752	\$ 834,446	\$ 48,258,198
Restricted for			
Public safety	210,767	-	210,767
Highways and streets	2,528,975	-	2,528,975
Conservation of natural resources	751,740	-	751,740
Economic development	85,836	-	85,836
Postclosure care	-	431,685	431,685
Other purposes	327,630	-	327,630
Unrestricted	5,893,631	176,761	6,070,392
Total Net Position	\$ 57,222,331	\$ 1,442,892	\$ 58,665,223

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>
Governmental activities		
General government	\$ 2,990,463	\$ 197,967
Public safety	2,695,016	95,869
Highways and streets	4,780,742	124,004
Sanitation	259,142	221,831
Health and human services	3,489,136	-
Culture and recreation	190,169	65,682
Conservation of natural resources	625,048	321,056
Interest	53,095	-
Total governmental activities	\$ 15,082,811	\$ 1,026,409
Business-type activities		
Landfill	606,190	529,083
Total	\$ 15,689,001	\$ 1,555,492

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

Special Item

Transfer of human services operations to
Des Moines Valley Health and Human Services

Total general revenues, transfers, and special item

Change in net position

Net Position - January 1

Net Position - December 31

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Position		
Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
\$ 163,643	\$ -	\$ (2,628,853)	\$ -	\$ (2,628,853)
230,657	-	(2,368,490)	-	(2,368,490)
3,566,257	29,387	(1,061,094)	-	(1,061,094)
63,803	-	26,492	-	26,492
-	-	(3,489,136)	-	(3,489,136)
-	-	(124,487)	-	(124,487)
102,708	-	(201,284)	-	(201,284)
-	-	(53,095)	-	(53,095)
\$ 4,127,068	\$ 29,387	\$ (9,899,947)	\$ -	\$ (9,899,947)
-	-	-	(77,107)	(77,107)
\$ 4,127,068	\$ 29,387	\$ (9,899,947)	\$ (77,107)	\$ (9,977,054)
		\$ 8,088,432	\$ -	\$ 8,088,432
		57,366	-	57,366
		8,077	-	8,077
		124,629	-	124,629
		188,612	-	188,612
		438,984	-	438,984
		204,845	-	204,845
		131,816	-	131,816
		202,867	-	202,867
		(24,962)	24,962	-
		(707,878)	-	(707,878)
		\$ 8,712,788	\$ 24,962	\$ 8,737,750
		\$ (1,187,159)	\$ (52,145)	\$ (1,239,304)
		58,409,490	1,495,037	59,904,527
		\$ 57,222,331	\$ 1,442,892	\$ 58,665,223

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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, 2014**

	<u>General</u>	<u>Road and Bridge</u>	<u>Ditch</u>	<u>Building</u>	<u>Total Governmental Funds</u>
<u>Assets</u>					
Cash and pooled investments	\$ 6,032,211	\$ 1,241,966	\$ 764,270	\$ 310,171	\$ 8,348,618
Petty cash and change funds	3,350	-	-	-	3,350
Undistributed cash in agency funds	101,858	-	7,952	548	110,358
Taxes receivable					
Delinquent	62,810	-	-	455	63,265
Special assessments					
Delinquent	16,338	-	2,518	-	18,856
Noncurrent	585,298	-	622,585	-	1,207,883
Accounts receivable	45,345	1,697	-	-	47,042
Accrued interest receivable	736	-	-	-	736
Loans receivable	158,418	-	-	-	158,418
Due from other funds	-	2,926	-	-	2,926
Due from other governments	-	2,572,116	-	-	2,572,116
Inventories	-	316,869	-	-	316,869
Advances to other funds	152,558	-	-	-	152,558
Total Assets	\$ 7,158,922	\$ 4,135,574	\$ 1,397,325	\$ 311,174	\$ 13,002,995
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 140,163	\$ 30,508	\$ 1,712	\$ 149	\$ 172,532
Salaries payable	145,408	58,763	-	-	204,171
Contracts payable	-	391,685	-	-	391,685
Due to other funds	2,926	190	-	-	3,116
Due to other governments	107,000	-	-	-	107,000
Unearned revenue	75,916	-	-	-	75,916
Advances from other funds	-	-	152,558	-	152,558
Total Liabilities	\$ 471,413	\$ 481,146	\$ 154,270	\$ 149	\$ 1,106,978
Deferred Inflows of Resources					
Unavailable revenue	\$ 664,446	\$ 2,552,206	\$ 625,103	\$ 455	\$ 3,842,210

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

*EXHIBIT 3
(Continued)*

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

	<u>General</u>	<u>Road and Bridge</u>	<u>Ditch</u>	<u>Building</u>	<u>Total Governmental Funds</u>
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u> (Continued)					
Fund Balances					
Nonspendable					
Inventories	\$ -	\$ 316,869	\$ -	\$ -	\$ 316,869
Long-term loans receivable	125,764	-	-	-	125,764
Advances to other funds	152,558	-	-	-	152,558
Restricted for					
Law library	998	-	-	-	998
Recorder's technology fund	75,202	-	-	-	75,202
Enhanced 911	174,549	-	-	-	174,549
Permit to carry administration	36,218	-	-	-	36,218
Recorder's compliance fund	151,569	-	-	-	151,569
Election equipment	50,022	-	-	-	50,022
Low-interest small business loans	85,836	-	-	-	85,836
Septic/sewer loan repayments	318,382	-	-	-	318,382
Ditch maintenance and repairs	-	-	725,940	-	725,940
Land restoration	49,839	-	-	-	49,839
Assigned to					
Capital improvements	418,527	-	-	-	418,527
Canteen fund	23,913	-	-	-	23,913
County septic/sewer loan program	50,949	-	-	-	50,949
Road and bridge	-	785,353	-	-	785,353
Building projects	-	-	-	310,570	310,570
Unassigned	4,308,737	-	(107,988)	-	4,200,749
Total Fund Balances	\$ 6,023,063	\$ 1,102,222	\$ 617,952	\$ 310,570	\$ 8,053,807
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 7,158,922	\$ 4,135,574	\$ 1,397,325	\$ 311,174	\$ 13,002,995

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2014**

Fund balances - total governmental funds (Exhibit 3)		\$	8,053,807
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.			47,754,880
Net OPEB assets are not available resources and, therefore, are not reported in the funds.			79,940
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds.			3,842,210
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.			
General obligation bonds	\$	(770,000)	
Capital leases		(331,128)	
Loans payable		(809,372)	
Compensated absences		(583,287)	
Accrued interest payable		(15,133)	
Unamortized premium on general obligation refunding bonds		(13,240)	
Deferred amount on refunding bonds		13,654	(2,508,506)
Net Position of Governmental Activities (Exhibit 1)			\$ 57,222,331

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	General	Road and Bridge
Revenues		
Taxes	\$ 6,546,436	\$ 1,886,947
Special assessments	318,316	-
Licenses and permits	12,479	11,155
Intergovernmental	1,199,912	2,210,880
Charges for services	206,575	50,544
Fines and forfeits	9,920	-
Gifts and contributions	105	-
Investment earnings	139,369	-
Miscellaneous	293,281	62,445
	\$ 8,726,393	\$ 4,221,971
Expenditures		
Current		
General government	\$ 2,857,228	\$ -
Public safety	2,571,087	-
Highways and streets	-	3,430,088
Sanitation	259,142	-
Health and human services	16,045	-
Culture and recreation	221,072	-
Conservation of natural resources	582,886	-
Intergovernmental	3,473,091	359,173
Debt service		
Principal	139,177	76,186
Interest	9,319	12,722
Administrative (fiscal) charges	-	-
	\$ 10,129,047	\$ 3,878,169
Excess of Revenues Over (Under) Expenditures	\$ (1,402,654)	\$ 343,802
Other Financing Sources (Uses)		
Transfers in	\$ -	\$ 125,000
Transfers out	(149,962)	-
Loans issued	147,557	-
	\$ (2,405)	\$ 125,000
Special Item		
Transfer of human services operations to Des Moines Valley Health and Human Services	\$ -	\$ -
Net Change in Fund Balances	\$ (1,405,059)	\$ 468,802
Fund Balances - January 1	7,428,122	621,582
Increase (decrease) in inventories	-	11,838
Fund Balances - December 31	\$ 6,023,063	\$ 1,102,222

EXHIBIT 5

<u>Family Services</u>	<u>Ditch</u>	<u>Building</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ 49,067	\$ 8,482,450
-	334,608	-	652,924
-	-	-	23,634
-	-	-	3,410,792
-	-	-	257,119
-	-	-	9,920
-	-	-	105
-	-	-	139,369
-	269	87,000	442,995
<u>\$ -</u>	<u>\$ 334,877</u>	<u>\$ 136,067</u>	<u>\$ 13,419,308</u>
\$ -	\$ -	\$ 31,525	\$ 2,888,753
-	-	-	2,571,087
-	-	-	3,430,088
-	-	-	259,142
-	-	-	16,045
-	-	-	221,072
-	60,293	-	643,179
-	-	-	3,832,264
-	160,000	-	375,363
-	30,796	-	52,837
-	930	-	930
<u>\$ -</u>	<u>\$ 252,019</u>	<u>\$ 31,525</u>	<u>\$ 14,290,760</u>
<u>\$ -</u>	<u>\$ 82,858</u>	<u>\$ 104,542</u>	<u>\$ (871,452)</u>
\$ -	\$ -	\$ -	\$ 125,000
-	-	-	(149,962)
-	-	-	147,557
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 122,595</u>
<u>\$ (876,928)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (876,928)</u>
<u>\$ (876,928)</u>	<u>\$ 82,858</u>	<u>\$ 104,542</u>	<u>\$ (1,625,785)</u>
<u>876,928</u>	<u>535,094</u>	<u>206,028</u>	<u>9,667,754</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>11,838</u>
<u><u>\$ -</u></u>	<u><u>\$ 617,952</u></u>	<u><u>\$ 310,570</u></u>	<u><u>\$ 8,053,807</u></u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

Net change in fund balances - total governmental funds (Exhibit 5) \$ (1,625,785)

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

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

Unavailable revenue - December 31	\$ 3,842,210	
Unavailable revenue - January 1	<u>(2,688,818)</u>	1,153,392

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

Capital outlay expenditures	\$ 594,483	
Net book value of assets disposed	(56,938)	
Current year depreciation	<u>(1,661,296)</u>	(1,123,751)

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		(147,557)
------------------------------	--	-----------

Principal payments		
General obligation bonds	\$ 160,000	
Capital lease	76,186	
Loans payable	<u>139,177</u>	375,363

Amortization of premium and deferred amount of refunding		(1,952)
----------------------------------------------------------	--	---------

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

Change in accrued interest payable	\$ 2,624	
Change in compensated absences payable	173,865	
Change in net OPEB asset	(5,196)	
Change in inventories	<u>11,838</u>	<u>183,131</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ (1,187,159)

PROPRIETARY FUND

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FUND NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2014**

	<u>Landfill Enterprise Fund</u>
<u>Assets</u>	
Current assets	
Cash and pooled investments	\$ 186,923
Accounts receivable	37,142
Due from other funds	190
Due from other governments	2,332
Restricted assets	
Cash and pooled investments	1,784,622
Total current assets	\$ 2,011,209
Noncurrent assets	
Capital assets	
Nondepreciable	\$ 163,882
Depreciable - net	926,568
Total noncurrent assets	\$ 1,090,450
Total Assets	\$ 3,101,659
<u>Liabilities</u>	
Current liabilities	
Accounts payable	\$ 13,901
Salaries payable	6,804
Loans payable - current	34,252
Total current liabilities	\$ 54,957
Noncurrent liabilities	
Loans payable - long-term	\$ 221,752
Compensated absences payable - long-term	29,121
Estimated liability for landfill closure/postclosure	1,352,937
Total noncurrent liabilities	\$ 1,603,810
Total Liabilities	\$ 1,658,767
<u>Net Position</u>	
Net investment in capital assets	\$ 834,446
Restricted for postclosure care	431,685
Unrestricted	176,761
Total Net Position	\$ 1,442,892

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

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Landfill Enterprise Fund
Operating Revenues	
Charges for services	\$ 517,181
Licenses and permits	50
Miscellaneous	11,852
	\$ 529,083
Operating Expenses	
Personal services	\$ 168,625
Professional services	16,046
Other services and charges	202,319
Utilities	12,223
Depreciation	138,036
Landfill closure and postclosure costs	59,895
	\$ 597,144
Operating Income (Loss)	\$ (68,061)
Nonoperating Expense	
Interest expense	9,046
	\$ (77,107)
Income (Loss) Before Transfers	
Transfers in	24,962
	\$ (52,145)
Change in Net Position	
Net Position - January 1	1,495,037
Net Position - December 31	\$ 1,442,892

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2014
Increase (Decrease) in Cash and Cash Equivalents**

	<u>Landfill Enterprise Fund</u>
Cash Flows from Operating Activities	
Receipts from customers and users	\$ 528,730
Payments to suppliers	(224,250)
Payments to employees	<u>(157,119)</u>
Net cash provided by (used in) operating activities	<u>\$ 147,361</u>
Cash Flows from Noncapital Financing Activities	
Transfers in	<u>\$ 24,962</u>
Cash Flows from Capital and Related Financing Activities	
Interest expense	\$ (9,046)
Payments on loan	(80,734)
Purchase of capital assets	<u>(15,456)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (105,236)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 67,087</u>
Cash and Cash Equivalents - January 1	<u>1,904,458</u>
Cash and Cash Equivalents - December 31	<u><u>\$ 1,971,545</u></u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position - Exhibit 7	
Cash and pooled investments	\$ 186,923
Restricted cash and pooled investments	<u>1,784,622</u>
Total Cash and Cash Equivalents - December 31	<u><u>\$ 1,971,545</u></u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

***EXHIBIT 9
(Continued)***

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2014
Increase (Decrease) in Cash and Cash Equivalents**

	<u>Landfill Enterprise Fund</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	<u>\$ (68,061)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 138,036
Landfill closure and postclosure costs	59,895
(Increase) decrease in accounts receivable	2,169
(Increase) decrease in due from other governments	(2,332)
(Increase) decrease in due from other funds	(190)
Increase (decrease) in accounts payable	6,338
Increase (decrease) in salaries payable	1,007
Increase (decrease) in compensated absences payable	<u>10,499</u>
Total adjustments	<u>\$ 215,422</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ 147,361</u></u>

FIDUCIARY FUNDS

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COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2014

	<u>Agency</u>
 <u>Assets</u>	
Cash and pooled investments	\$ <u>235,220</u>
 <u>Liabilities</u>	
Due to other governments	\$ <u>235,220</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 11

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Investment Trust</u>
<u>Deductions</u>	
Transfer to Des Moines Valley Health and Human Services	\$ <u>104,506</u>
Change in Net Position	\$ (104,506)
Net Position - January 1	<u>104,506</u>
Net Position - December 31	<u><u>\$ -</u></u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2014. 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 7.B. The County also participates in jointly-governed organizations described in Note 7.C.

B. Basic Financial Statements

1. Government-Wide Statements

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

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 human services function was added to the General Fund beginning in 2014.

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 Family Services Special Revenue Fund is used to account for restricted revenue sources from the federal, state, and other oversight agencies, as well as assigned property tax revenues from the County to be used for economic assistance and community social services programs.

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

The Building 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 types:

The Investment Trust Fund is used to account for the external pooled and non-pooled investments held on behalf of external participants. This activity was transferred to Des Moines Valley Health and Human Services in 2014.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Cottonwood County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on 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.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

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.

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled investments are reported at their fair value at December 31, 2014, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments of governmental funds are credited to the General Fund. Pooled investment earnings for 2014 were \$139,369.

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.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Receivables and Payables (Continued)

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.

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.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Capital Assets

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

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

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

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

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide 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.

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report 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 has only one type of item, which arises only under an accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, deferred amount on refunding, is being amortized over the remaining life of the refunding bonds as part of interest expense. No deferred outflows of resources affect the governmental funds financial statements in the current year.

In addition to liabilities, the statement of financial position will sometimes report 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 only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

12. 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.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

12. Classification of Net Position (Continued)

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.

13. Classification of Fund Balances

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

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

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

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

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

13. Classification of Fund Balances (Continued)

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 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.

14. Use of Estimates

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

15. Special Item

Cottonwood County approved for the County's human services function to join the newly organized Des Moines Valley Health and Human Services (DVHHS) as of January 1, 2014. The human services operations were transferred to the DVHHS in 2014. The current year levy and appropriations for the County's human services function are accounted for in the General Fund.

E. Future Change in Accounting Standards

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, replaces Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to employer governments that provide pensions through pension plans administered as trusts or similar arrangement that meet certain criteria. GASB Statement 68 requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement will be effective for the County's calendar year 2015. The County has not yet determined the financial statement impact of adopting this new standard.

2. Stewardship, Compliance, and Accountability

Deficit Fund Equity

On the full accrual basis of accounting, 8 of the 87 drainage systems have incurred expenses in excess of revenues and available resources. These deficits will be eliminated with future special assessment levies against benefited properties. The following summary shows the fund equity as of December 31, 2014, using the full accrual basis of accounting.

Account balances	\$ 725,697
Account balance deficit	<u>(252,640)</u>
Fund Equity - Full Accrual Basis	<u>\$ 473,057</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Deficit Fund Equity (Continued)

Using the modified accrual basis of accounting, noncurrent receivables and bonds payable do not affect fund balance. Noncurrent receivables are deferred inflows of resources and bonds payable are not reported. Using this basis of accounting, 6 ditches had fund deficits.

Account balances	\$ 725,940
Account balance deficit	<u>(107,988)</u>
 Fund Balance - Modified Accrual Basis	 <u>\$ 617,952</u>

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net position	
Governmental activities	
Cash and pooled investments	\$ 8,462,326
Business-type activities	
Cash and pooled investments	186,923
Cash and pooled investments - restricted assets	1,784,622
Statement of fiduciary net position	
Agency funds	
Cash and pooled investments	<u>235,220</u>
Total Cash and Investments	<u>\$ 10,669,091</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.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated “A” or better and revenue obligations rated “AA” or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County’s deposits may not be returned to it. The County has adopted a policy for custodial credit risk by obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law. As of December 31, 2014, 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;

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County has adopted a policy for custodial credit risk by permitting brokers that obtain investments for the County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. At December 31, 2014, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County's cash and investment balances at December 31, 2014, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration	Interest	Carrying (Fair) Value
	Credit Rating	Rating Agency	Risk Over 5% of Portfolio	Rate Risk Maturity Date	
U.S. government agency securities (1)					
Federal National Mortgage Association note	AA-	S&P	N/A	10/09/2019	\$ 103,393
Federal Home Loan Bank bond	AA+	S&P		05/20/2021	\$ 249,497
Federal Home Loan Bank bond	AA+	S&P		12/12/2022	100,429
Federal Home Loan Bank bond	AA+	S&P		04/17/2023	100,039
Federal Home Loan Bank bond	AA+	S&P		04/25/2023	123,681
Federal Home Loan Bank bond	AA+	S&P		06/13/2023	98,102
Federal Home Loan Bank bond	AA+	S&P		05/28/2024	124,749
Federal Home Loan Bank bond	AA+	S&P		11/26/2027	200,254
Federal Home Loan Bank bond	AA+	S&P		06/20/2028	97,896
Total Federal Home Loan Bank bonds			15.9%		\$ 1,094,647
Negotiable certificates of deposit with brokers	N/A	N/A	N/A	Various	\$ 5,695,897
Total investments					\$ 6,893,937
Checking					3,149,804
Savings					525,000
Petty cash and change funds					3,350
Certificates of deposit					97,000
Total Cash and Investments					\$ 10,669,091

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

N/A - Not Applicable

S&P - Standard & Poor's

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2014, for the County's governmental activities and business-type activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 63,265	\$ -
Special assessments - delinquent	18,856	-
Special assessments - noncurrent	1,207,883	922,143
Accounts	47,042	-
Interest	736	-
Loans	158,418	148,336
Due from other governments	2,572,116	-
Total Governmental Activities	\$ 4,068,316	\$ 1,070,479
Business-Type Activities		
Accounts	\$ 37,142	\$ -
Due from other governments	2,332	-
Total Business-Type Activities	\$ 39,474	\$ -

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 March 26, 2013, the County Board approved the issuance of a \$25,000 loan to the Windom Theater to be repaid at \$430 per month at 1.25 percent interest for five years. At December 31, 2014, the outstanding loan balance was \$19,306. 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, 2014, the outstanding loan balance was \$13,348.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

2. Receivables

Details on Loans Receivable (Continued)

In 2012, Cottonwood County agreed to loan the Southwest Mental Health Center \$131,000 at two 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, 2014, the outstanding loan balance was \$125,764.

3. Capital Assets

Capital asset activity for the year ended December 31, 2014, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 315,824	\$ -	\$ -	\$ 315,824
Right-of-way	796,481	-	-	796,481
Total capital assets not depreciated	\$ 1,112,305	\$ -	\$ -	\$ 1,112,305
Capital assets depreciated				
Buildings	\$ 4,886,385	\$ -	\$ -	\$ 4,886,385
Machinery and equipment	6,369,024	361,065	347,057	6,383,032
Infrastructure	59,871,491	233,418	-	60,104,909
Total capital assets depreciated	\$ 71,126,900	\$ 594,483	\$ 347,057	\$ 71,374,326
Less: accumulated depreciation for				
Buildings	\$ 2,500,986	\$ 101,275	\$ -	\$ 2,602,261
Machinery and equipment	4,068,892	397,911	290,119	4,176,684
Infrastructure	16,790,696	1,162,110	-	17,952,806
Total accumulated depreciation	\$ 23,360,574	\$ 1,661,296	\$ 290,119	\$ 24,731,751
Total capital assets depreciated, net	\$ 47,766,326	\$ (1,066,813)	\$ 56,938	\$ 46,642,575
Governmental Activities Capital Assets, Net	\$ 48,878,631	\$ (1,066,813)	\$ 56,938	\$ 47,754,880

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 163,882	\$ -	\$ -	\$ 163,882
Capital assets depreciated				
Buildings	\$ 23,700	\$ -	\$ -	\$ 23,700
Land improvements	2,363,085	-	-	2,363,085
Machinery and equipment	809,481	15,456	23,810	801,127
Total capital assets depreciated	\$ 3,196,266	\$ 15,456	\$ 23,810	\$ 3,187,912
Less: accumulated depreciation for				
Buildings	\$ 22,976	\$ 724	\$ -	\$ 23,700
Land improvements	1,907,763	51,546	-	1,959,309
Machinery and equipment	216,379	85,766	23,810	278,335
Total accumulated depreciation	\$ 2,147,118	\$ 138,036	\$ 23,810	\$ 2,261,344
Total capital assets depreciated, net	\$ 1,049,148	\$ (122,580)	\$ -	\$ 926,568
Business-Type Activities				
Capital Assets, Net	\$ 1,213,030	\$ (122,580)	\$ -	\$ 1,090,450

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

Governmental Activities	
General government	\$ 59,217
Public safety	105,978
Highways and streets, including depreciation of infrastructure assets	1,493,986
Conservation of natural resources	332
Culture and recreation	1,783
Total Depreciation Expense - Governmental Activities	<u>\$ 1,661,296</u>
Business-Type Activities	
Landfill	<u>\$ 138,036</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2014, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
Road and Bridge	General	\$ 2,926
Landfill	Road and Bridge	190
Total Due To/From Other Funds		\$ 3,116

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	\$ 152,558

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, 2014, consisted of the following:

Transfers to Road and Bridge Fund from General Fund	\$ 125,000	Provide funds for operations
Transfers to Landfill Fund from General Fund	24,962	Interest distribution
Total Interfund Transfers	\$ 149,962	

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2014, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	\$ 172,532	\$ 13,901
Salaries	204,171	6,804
Contracts	391,685	-
Due to other governments	107,000	-
Total Payables	\$ 875,388	\$ 20,705

2. Construction Commitments

The County has an active construction project as of December 31, 2014. The project includes the following:

	Spent-to-Date	Remaining Commitment
Business-Type Activities		
Landfill manhole extension	\$ -	\$ 60,000

3. Other Postemployment Benefits (OPEB)

Elected Officials' Benefits

Elected County officials and their dependents and surviving spouses are entitled to one year of paid health insurance for every two years of service to the County. There is no maximum number of years for officials elected prior to 1995. Those elected after 1995 are restricted to a maximum of six years of coverage and, as of February 10, 2004, the maximum was reduced to four years. As of January 1, 2004, the maximum monthly contribution was set at \$720. This post-service benefit is funded on a pay-as-you-go basis. The County had two elected officials who were eligible for this benefit in 2014. The cost for this program totaled \$15,672 in 2014.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Other Postemployment Benefits (OPEB)

Elected Officials' Benefits (Continued)

The County also provides health insurance benefits for eligible retired employees and their spouses under a single-employer self-insured plan. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b. Retirees are required to pay 100 percent of the total premium cost. Since the premium is determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. This postemployment benefit is funded on a pay-as-you-go basis, usually paying retiree benefits out of the General Fund. At January 1, 2014, the date of the last valuation, there were approximately 107 participants in the plan, including 10 retirees. The implicit rate subsidy amount was determined by an actuarial study to be \$16,562 for 2014.

Annual OPEB Cost and Net OPEB Obligation

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

ARC	\$	34,999
Interest on net OPEB obligation (asset)		(851)
Adjustment to ARC		3,282
		3,282
Annual OPEB cost (expense)	\$	37,430
Contributions made during the year		(32,234)
		(32,234)
Increase (decrease) in net OPEB obligation	\$	5,196
Net OPEB Obligation (Asset) - January 1		(85,136)
		(85,136)
Net OPEB Obligation (Asset) - December 31	\$	(79,940)

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB; the percentage of annual OPEB cost contributed to the plan; and the net OPEB obligation for the years ended December 31, 2012, 2013, and 2014, were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
December 31, 2012	\$ 39,347	\$ 53,080	134.9%	\$ (80,751)
December 31, 2013	39,738	44,123	111.0	(85,136)
December 31, 2014	37,430	32,234	86.1	(79,940)

Funded Status and Funding Progress

As of January 1, 2014, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$477,505, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$477,505. The covered payroll (annual payroll of active employees covered by the plan) was \$3,342,466, and the ratio of the UAAL to the covered payroll was 14.3 percent.

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions

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

In the January 1, 2014, actuarial valuation, the projected unit credit actuarial method was used. The actuarial assumptions include a 1.0 percent investment rate of return (net of investment expenses), which is Cottonwood County's implicit rate of return on the General Fund. The medical plan cost trend rate is 3.5 percent. Neither rate includes an inflation assumption. The UAAL is being amortized over 30 years on a closed basis as a level dollar amount. The remaining amortization period at December 31, 2014, was 23 years.

4. Capital Lease

The County has entered into two capital lease agreements to finance equipment for the Highway Department. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The leases are as follows at December 31, 2014:

<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, 2014</u>
2012 Case 1150K Dozer	2016	\$ 28,172	3.20	\$ 156,285	\$ 53,714
2012 John Deere Motor Graders	2019	60,736	3.05	377,077	277,414
Total Capital Lease Payable					<u>\$ 331,128</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Capital Lease (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2014, were as follows:

Year Ending December 31	Governmental Activities
2015	\$ 88,908
2016	88,907
2017	60,736
2018	60,736
2019	60,736
Total minimum lease payments	\$ 360,023
Less: amount representing interest	(28,895)
Present Value of Minimum Lease Payments	\$ 331,128

5. Long-Term Debt

Governmental Activities

Bonds Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2014
Special assessment bonds with government commitment 2011 G.O. Drainage Refunding Bonds	2020	\$105,000 - \$160,000	2.05	\$ 1,090,000	\$ 770,000
Add: unamortized premium					13,240
Total Governmental Activities, Net					\$ 783,240

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

5. Long-Term Debt

Governmental Activities (Continued)

Loans Payable

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

6. Debt Service Requirements

Debt service requirements at December 31, 2014, were as follows:

Governmental Activities

Year Ending December 31	Special Assessment Bonds		Loans Payable	
	Principal	Interest	Principal	Interest
2015	\$ 160,000	\$ 14,118	\$ 133,519	\$ 9,729
2016	160,000	10,917	139,472	7,739
2017	120,000	8,117	95,960	5,818
2018	115,000	5,768	75,280	4,705
2019	110,000	3,490	67,140	3,774
2020 - 2024	105,000	1,181	223,155	6,765
2025	-	-	2,079	-
Total	\$ 770,000	\$ 43,591	\$ 736,605	\$ 38,530

Clean water loans in the amount of \$72,767 are not included in the debt service requirements because a fixed repayment schedule is not available.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

6. Debt Service Requirements

Governmental Activities (Continued)

Debt Refunding

On December 1, 2011, the County issued \$1,090,000 of G.O. Drainage Refunding Bonds of 2011 with an average interest rate of 2.0375 percent to advance refund the G.O. Drainage Crossover Refunding Bonds of 2005 with an average interest rate of 3.5586 percent. The net proceeds of \$1,080,000 were used to pay the refunded bonds on their call date of February 1, 2012.

The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$27,313. This difference, reported in the statement of net position as a deferred outflow of resources, is being charged to operations through 2020 using the straight-line method. The County completed the refunding to reduce its total debt service payments over the next nine years by \$70,319 and to obtain an economic gain (difference between the present value of the old and new debt service payments) of \$65,196.

Business-Type Activities

Loans Payable

In 2013, the Landfill Enterprise Fund entered into a loan agreement with United Prairie Bank to purchase a compactor. The original loan amount of \$356,640, is to be paid quarterly, with a balloon payment on October 1, 2018. The annual interest rate on the loan is 2.95 percent.

Year Ending December 31	Loans Payable	
	Principal	Interest
2015	\$ 34,252	\$ 7,176
2016	35,273	6,154
2017	36,326	5,102
2018	150,153	3,117
Total	\$ 256,004	\$ 21,549

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

7. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2014, 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)					
G.O. Drainage Crossover Refund Bond 2011 (Ditch)	\$ 930,000	\$ -	\$ 160,000	\$ 770,000	\$ 160,000
Add: unamortized premium	15,841	-	2,601	13,240	-
Total bonds payable	\$ 945,841	\$ -	\$ 162,601	\$ 783,240	\$ 160,000
Loans payable	800,992	147,557	139,177	809,372	133,519
Capital lease	407,314	-	76,186	331,128	78,583
Compensated absences	757,152	109,130	282,995	583,287	64,687
Governmental Activities Long-Term Liabilities	<u>\$ 2,911,299</u>	<u>\$ 256,687</u>	<u>\$ 660,959</u>	<u>\$ 2,507,027</u>	<u>\$ 436,789</u>

For governmental activities; drainage bonds are generally liquidated by the Ditch Special Revenue Fund, loans are generally liquidated by the General Fund, capital leases are generally liquidated by the Road and Bridge Special Revenue Fund, and compensated absences are generally liquidated by the General Fund and 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>
Loans payable	\$ 336,738	\$ -	\$ 80,734	\$ 256,004	\$ 34,252
Estimated liability for landfill closure and postclosure care	1,293,042	59,895	-	1,352,937	-
Compensated absences	18,622	10,499	-	29,121	-
Business-Type Activities Long-Term Liabilities	<u>\$ 1,648,402</u>	<u>\$ 70,394</u>	<u>\$ 80,734</u>	<u>\$ 1,638,062</u>	<u>\$ 34,252</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

D. Unearned Revenue/Deferred Inflows of Resources

Unearned revenue and deferred inflows of resources as of December 31, 2014, for the County's governmental funds are as follows:

	Unearned Revenue	Unavailable Revenue
Delinquent property taxes	\$ -	\$ 63,265
Special assessments receivable, delinquent and noncurrent	-	1,226,739
Highway allotments that do not provide current financial resources	-	2,528,975
Grants	75,916	23,231
Total Governmental Funds	\$ 75,916	\$ 3,842,210

4. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the County Board reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$1,352,937 landfill closure and postclosure care liability at December 31, 2014, represents the cumulative amount reported to date based on the use of 68 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$637,477 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2014.

The Board expects to close the landfill in 2035. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The Board is in compliance with these requirements and, at December 31, 2014, the County has \$1,784,622 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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

4. Landfill Closure and Postclosure Care Costs (Continued)

earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws and regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

5. Risk Management

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

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 \$480,000 per claim in 2014 and \$490,000 per claim in 2015. 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.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

6. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

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

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan and benefits vest after five years of credited service.

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

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

6. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

6. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans (Continued)

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary in 2014. Public Employees Police and Fire Fund members were required to contribute 10.20 percent of their annual covered salary in 2014. Public Employees Correctional Fund members were required to contribute 5.83 percent of their annual covered salary.

In 2014, the County is required to contribute the following percentages of annual covered payroll:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	15.30
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2014, 2013, and 2012, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
General Employees Retirement Fund	\$ 181,297	\$ 272,366	\$ 257,574
Public Employees Police and Fire Fund	87,022	77,552	77,395
Public Employees Correctional Fund	41,855	33,247	34,771

These contribution amounts are equal to the contractually required contributions for each year as set by state statute. Contribution rates increased on January 1, 2015, in the General Employees Retirement Fund Coordinated Plan (6.50 percent for members and 7.50 percent for employers) and the Public Employees Police and Fire Fund (10.80 percent for members and 16.20 percent for employers).

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

6. Employee Retirement Systems and Pension Plans (Continued)

B. Defined Contribution Plan

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

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

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ending December 31, 2014, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 5,181	\$ 5,181
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

B. Joint Ventures

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 2014 for the health and human services function was \$3,473,091.

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

Cottonwood County Family Services Collaborative

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Cottonwood County Family Services Collaborative (Continued)

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 2014, 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, Redwood, and Watonwan Counties have agreed to guarantee their shares of debt arising within each respective county. The Red Rock Rural Water System provides water for participating rural water users and cities within the water district. The cost of providing these services is recovered through user charges.

The governing body is composed of nine members appointed to three-year terms by the District Court. Each county is responsible for levying and collecting the special assessments from the benefited properties within the county. The bond issue and notes payable are shown as long-term debt in the financial statements of the Red Rock Rural Water System.

Complete financial information can be obtained from the Red Rock Rural Water System, 305 West Whited Street, Jeffers, Minnesota 56145.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Southwest Regional Solid Waste Commission

Cottonwood County has entered into a joint powers agreement with 11 other counties to create and operate the Southwest Regional Solid Waste Commission under the authority of Minn. Stat. § 471.59. The Commission was formed to exercise the County's authority and obligation pursuant to Minn. Stat. chs. 400 and 115A; to provide for the management of solid waste in the respective counties; and provide the greatest public service benefit possible for the entire contiguous 12-county area encompassed by the counties in planning, management, and implementation of methods to deal with solid waste in southwest Minnesota.

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

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

Southwestern Minnesota Adult Mental Health Consortium Board

In November 1997, the Southwestern Minnesota Adult Mental Health Consortium Board was created under the authority of Minn. Stat. § 471.59. Presently its members include Big Stone, Chippewa, 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. Des Moines Valley Health and Human Services (DVHHS) acts as fiscal host.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

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.

For 2014, Cottonwood County paid a total of \$735 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 E. Luverne Street, Luverne, Minnesota 56156.

Rural Minnesota Energy Board

The Rural Minnesota Energy Board was established in 2005 under the authority of Minn. Stat. § 471.59. The purpose of the Board is to provide policy guidance on issues surrounding energy development in rural Minnesota. The focus of the Board includes, but is not limited to, renewable energy, wind energy, energy transmission lines, hydrogen energy technology, and bio-diesel and ethanol use. During 2014, Cottonwood County paid \$1,000 to the Board.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Southwest Minnesota Regional Emergency Communications Board

As of August 23, 2013, the Southwest Minnesota Regional Radio Board changed its name to the Southwest Minnesota Regional Emergency Communications Board. The Southwest Minnesota Regional Radio Board Joint Powers Board was established April 22, 2008, between Cottonwood County, the Cities of Marshall and 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 2014, Cottonwood County made no contributions to the Joint Powers Board.

Southern Prairie Community Care

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Southwest Minnesota Private Industry Council, Inc.

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

SW MN PIC is governed by the Chief Elected Official Board, which is composed of one representative from each member county. Cottonwood County did not provide contributions to this organization in 2014.

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

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

Cottonwood County, in conjunction with Lincoln, Lyon, Murray, Nobles, Redwood, and Rock Counties, and the Southwest Regional Development Commission, pursuant to Minn. Stat. § 471.59, have formed an agreement to coordinate the delivery of volunteer services to non-profit community service entities and local units of government meeting the guidelines for receiving volunteer services under the authority of the counties. The entity known as Retired and Senior Volunteer Program of Southwest Minnesota (RSVP of Southwest Minnesota) changed its name to A.C.E. of Southwest Minnesota as of January 1, 2014. The Board comprises one voting member from each participating county and one voting member of the A.C.E. of Southwest Minnesota Advisory Council. In 2014, the County made contributions of \$16,946 to the A.C.E. of Southwest Minnesota.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

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

C. Jointly-Governed Organizations

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

Area II Minnesota River Basin Project

The Area II Minnesota River Basin Project provides cost-share and technical assistance for the implementation of flood reduction measures to the area between the Cities of Ortonville and Mankato. During the year, the 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, the County made \$2,868 in contributions to the GBERBA.

Minnesota River Board

The Minnesota River Board (formerly the Minnesota River Basin Joint Powers Board) was established July 12, 1995, by an agreement between Cottonwood County and 37 other counties. According to the latest information available, 38 other counties are members under this agreement. The agreement was made to promote orderly water quality improvement and management of the Minnesota River Watershed. Each county is responsible for its proportionate share of the administrative budget and for its share of benefits from any special project.

In the event of termination of the agreement, all property, real and personal, held by the Joint Powers Board shall be distributed by resolution of the policy committee to best accomplish the continuing purpose of the project.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations

Minnesota River Board (Continued)

Control is vested in an executive committee of one executive director and four officers elected from the membership of the Joint Powers Board, consisting of one representative from one of the member County Board of Commissioners included in this agreement. During 2014, Cottonwood County did not contribute to the Joint Powers Board.

A vote was taken on December 17, 2013, to terminate the Joint Powers Agreement. The County was asked to pass a resolution of termination at its March 4, 2014, Board meeting, which the County voted to do. Effective April 1, 2014, the County is no longer a member of the Minnesota River Board.

Complete financial statements for the Minnesota River Board can be obtained from its administrative office at Administrative Building No. 14, 600 East 4th Street, Chaska, Minnesota 55318.

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, the 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 the County's responsibility does not extend beyond making the appointments.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Region Five - Southwest Minnesota Homeland Security Emergency Management Organization

The Region Five - Southwest Minnesota Security Emergency Management Organization (SWRHSEM) 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 (SWRHSEM) region. Control is vested in the Board, which is composed of representatives appointed by each Board of County Commissioners. Cottonwood County's responsibility does not extend beyond making this appointment.

Minnesota Criminal Justice Data Communications Network

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

Sentence to Serve

Cottonwood County, in conjunction with other local governments, participates in the State of Minnesota's Sentence to Serve (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 Departments of Corrections and Natural Resources, provide the funds needed to operate the STS program. Although the County has no operational or financial control over the STS program, Cottonwood County budgets for a percentage of this program.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

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. The County did not contribute to the Project in 2014.

Southwest Minnesota Immunization Information Connection

The Southwest Minnesota Immunization Information Connection (SW-MIIC) Joint Powers Board promotes an implementation and maintenance of a regional immunization information system to ensure age-appropriate immunizations through complete and accurate records. The County did not contribute to the SW-MIIC during 2014.

D. Agriculture Best Management Loan Program

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

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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, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 6,732,477	\$ 6,732,477	\$ 6,546,436	\$ (186,041)
Special assessments	366,800	366,800	318,316	(48,484)
Licenses and permits	11,960	11,960	12,479	519
Intergovernmental	934,748	934,748	1,199,912	265,164
Charges for services	157,135	157,135	206,575	49,440
Fines and forfeits	10,000	10,000	9,920	(80)
Gifts and contributions	-	-	105	105
Investment earnings	136,000	136,000	139,369	3,369
Miscellaneous	142,405	172,405	293,281	120,876
Total Revenues	\$ 8,491,525	\$ 8,521,525	\$ 8,726,393	\$ 204,868
Expenditures				
Current				
General government				
Commissioners	\$ 412,265	\$ 412,265	\$ 444,321	\$ (32,056)
Courts	23,900	23,900	41,982	(18,082)
Law library	5,000	5,000	10,750	(5,750)
Auditor/treasurer	511,052	511,052	532,033	(20,981)
Assessor	385,822	385,822	360,296	25,526
Office of technology	152,418	204,786	197,063	7,723
Elections	117,945	117,945	119,531	(1,586)
Attorney	317,091	317,091	292,980	24,111
Recorder	220,912	220,912	234,778	(13,866)
Building and plant	158,686	158,686	156,378	2,308
Veterans service officer	106,890	106,890	108,749	(1,859)
Other general government	202,517	202,517	358,367	(155,850)
Total general government	\$ 2,614,498	\$ 2,666,866	\$ 2,857,228	\$ (190,362)
Public safety				
Sheriff	\$ 1,318,122	\$ 1,322,122	\$ 1,358,666	\$ (36,544)
Drug task force	-	-	3,830	(3,830)
Emergency services	90,552	90,552	85,219	5,333
Coroner	21,100	21,100	22,693	(1,593)
Safety program	2,800	2,800	8,049	(5,249)
Jail	904,339	904,339	967,171	(62,832)
Probation and parole	111,027	111,027	125,459	(14,432)
Total public safety	\$ 2,447,940	\$ 2,451,940	\$ 2,571,087	\$ (119,147)
Sanitation				
Recycling	\$ 239,405	\$ 257,905	\$ 259,142	\$ (1,237)
Health and human services				
Community health	\$ 318	\$ 318	\$ 2,328	\$ (2,010)
Environmental health	13,717	13,717	13,717	-
Total health and human services	\$ 14,035	\$ 14,035	\$ 16,045	\$ (2,010)

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

*EXHIBIT A-1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Culture and recreation				
Parks	\$ 115,996	\$ 115,996	\$ 161,102	\$ (45,106)
Regional library	51,270	51,270	59,970	(8,700)
Total culture and recreation	\$ 167,266	\$ 167,266	\$ 221,072	\$ (53,806)
Conservation of natural resources				
Extension	\$ 139,037	\$ 139,037	\$ 114,332	\$ 24,705
Soil and water conservation	101,913	101,913	98,723	3,190
Water planning	213,004	213,004	95,177	117,827
Water quality loan program	-	-	160,704	(160,704)
Environmental services	102,224	102,224	113,950	(11,726)
Total conservation of natural resources	\$ 556,178	\$ 556,178	\$ 582,886	\$ (26,708)
Intergovernmental				
Health and human services	\$ 2,739,407	\$ 2,739,407	\$ 3,473,091	\$ (733,684)
Debt service				
Principal	\$ 176,000	\$ 176,000	\$ 139,177	\$ 36,823
Interest	-	-	9,319	(9,319)
Total debt service	\$ 176,000	\$ 176,000	\$ 148,496	\$ 27,504
Total Expenditures	\$ 8,954,729	\$ 9,029,597	\$ 10,129,047	\$ (1,099,450)
Excess of Revenues Over (Under) Expenditures	\$ (463,204)	\$ (508,072)	\$ (1,402,654)	\$ (894,582)
Other Financing Sources (Uses)				
Transfers in	\$ 12,500	\$ -	\$ -	\$ -
Transfers out	-	-	(149,962)	(149,962)
Loans issued	-	-	147,557	147,557
Total Other Financing Sources (Uses)	\$ 12,500	\$ -	\$ (2,405)	\$ (2,405)
Net Change in Fund Balance	\$ (450,704)	\$ (508,072)	\$ (1,405,059)	\$ (896,987)
Fund Balance - January 1	7,428,122	7,428,122	7,428,122	-
Fund Balance - December 31	\$ 6,977,418	\$ 6,920,050	\$ 6,023,063	\$ (896,987)

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,877,177	\$ 1,877,177	\$ 1,886,947	\$ 9,770
License and permits	-	-	11,155	11,155
Intergovernmental	3,370,807	3,370,807	2,210,880	(1,159,927)
Charges for services	-	-	50,544	50,544
Miscellaneous	234,203	234,203	62,445	(171,758)
Total Revenues	\$ 5,482,187	\$ 5,482,187	\$ 4,221,971	\$ (1,260,216)
Expenditures				
Current				
Highways and streets				
Administration	\$ 366,828	\$ 366,828	\$ 335,481	\$ 31,347
Maintenance	1,603,229	1,603,229	1,456,991	146,238
Construction	2,053,356	2,053,356	566,081	1,487,275
Equipment and maintenance shops	1,183,391	1,183,391	1,071,535	111,856
Total highways and streets	\$ 5,206,804	\$ 5,206,804	\$ 3,430,088	\$ 1,776,716
Intergovernmental				
Highways and streets	\$ 346,790	\$ 346,790	\$ 359,173	\$ (12,383)
Debt service				
Principal	\$ -	\$ -	\$ 76,186	\$ (76,186)
Interest	-	-	12,722	(12,722)
Total debt service	\$ -	\$ -	\$ 88,908	\$ (88,908)
Total Expenditures	\$ 5,553,594	\$ 5,553,594	\$ 3,878,169	\$ 1,675,425
Excess of Revenues Over (Under) Expenditures	\$ (71,407)	\$ (71,407)	\$ 343,802	\$ 415,209
Other Financing Sources (Uses)				
Transfers in	125,000	125,000	125,000	-
Net Change in Fund Balance	\$ 53,593	\$ 53,593	\$ 468,802	\$ 415,209
Fund Balance - January 1	621,582	621,582	621,582	-
Increase (decrease) in inventories	-	-	11,838	11,838
Fund Balance - December 31	\$ 675,175	\$ 675,175	\$ 1,102,222	\$ 427,047

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

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT A-3

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2014**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (%) (a/b)	Covered Payroll (c)	UAAL as a Percentage (%) of Covered Payroll ((b-a)/c)
January 1, 2008	\$ -	\$ 393,153	\$ 393,153	0.0%	\$ 4,124,724	9.5%
January 1, 2011	-	324,423	324,423	0.0%	4,291,386	7.6%
January 1, 2014	-	477,505	477,505	0.0%	3,342,466	14.3%

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2014

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 generally accepted accounting principles.

3. Budget Amendments

The revenue and expenditure budgets in the General Fund were amended as follows:

	Original Budget	Increase (Decrease)	Final Budget
General Fund			
Revenues	\$ 8,491,525	\$ 30,000	8,521,525
Expenditures	8,954,729	74,868	9,029,597

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, 2014:

Fund	Expenditures	Final Budget	Excess
General Fund	\$ 10,129,047	\$ 9,029,597	\$ 1,099,450

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

4. Excess of Expenditures Over Appropriations (Continued)

The expenditures in excess of budget were funded by unbudgeted revenues and fund balance. The primary reasons for the excess expenditures in the General Fund were attributable to the unbudgeted other general government and water quality loan program expenditures and the unbudgeted additional contributions to Des Moines Valley Health and Human Services.

5. Other Postemployment Benefits Funded Status

See Note 3.C.3., Other Postemployment Benefits, for more information.

SUPPLEMENTARY INFORMATION

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT B-1

**BUDGETARY COMPARISON SCHEDULE
BUILDING CAPITAL PROJECTS FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 50,000	\$ 50,000	\$ 49,067	\$ (933)
Miscellaneous	65,400	65,400	87,000	21,600
Total Revenues	\$ 115,400	\$ 115,400	\$ 136,067	\$ 20,667
Expenditures				
Current				
General government				
Buildings and plant	75,400	75,400	31,525	43,875
Net Change in Fund Balance	\$ 40,000	\$ 40,000	\$ 104,542	\$ 64,542
Fund Balance - January 1	206,028	206,028	206,028	-
Fund Balance - December 31	\$ 246,028	\$ 246,028	\$ 310,570	\$ 64,542

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Balance January 1	Additions	Deductions	Balance December 31
<u>AGENCY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>37,425</u>	\$ <u>234,288</u>	\$ <u>234,910</u>	\$ <u>36,803</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>37,425</u>	\$ <u>234,288</u>	\$ <u>234,910</u>	\$ <u>36,803</u>
 <u>MENTAL HEALTH CONSORTIUM</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>2,479</u>	\$ <u>1,921</u>	\$ <u>4,400</u>	\$ <u>-</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>2,479</u>	\$ <u>1,921</u>	\$ <u>4,400</u>	\$ <u>-</u>
 <u>MORTGAGE REGISTRY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>6,895</u>	\$ <u>107,801</u>	\$ <u>109,968</u>	\$ <u>4,728</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>6,895</u>	\$ <u>107,801</u>	\$ <u>109,968</u>	\$ <u>4,728</u>

**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, 2014**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>STATE DEED TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>24,224</u>	\$ <u>157,900</u>	\$ <u>154,452</u>	\$ <u>27,672</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>24,224</u>	\$ <u>157,900</u>	\$ <u>154,452</u>	\$ <u>27,672</u>
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>121,252</u>	\$ <u>19,631,282</u>	\$ <u>19,586,517</u>	\$ <u>166,017</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>121,252</u>	\$ <u>19,631,282</u>	\$ <u>19,586,517</u>	\$ <u>166,017</u>
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>192,275</u>	\$ <u>20,133,192</u>	\$ <u>20,090,247</u>	\$ <u>235,220</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>192,275</u>	\$ <u>20,133,192</u>	\$ <u>20,090,247</u>	\$ <u>235,220</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2014**

Appropriations and Shared Revenue

State

Highway users tax	\$	2,200,101
County program aid		240,464
PERA rate reimbursement		12,955
Disparity reduction aid		43,251
Police aid		83,090
Aquatic invasive species prevention aid		27,101
SCORE		63,803
Enhanced 911		98,163
Market value credit		142,314
		142,314

Total appropriations and shared revenue **\$ 2,911,242**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	42,611
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Payments

Local

Payments in lieu of taxes	\$	204,845
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Grants

State

Minnesota Department/Board of		
Corrections	\$	21,073
Public Safety		18,075
Revenue		3,529
Natural Resources		110,003
Veterans Affairs		7,500
Water and Soil Resources		75,607
		75,607

Total state **\$ 235,787**

Federal

Department of Transportation		16,307
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Total state and federal grants **\$ 252,094**

Total Intergovernmental Revenue **\$ 3,410,792**

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2014**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2006-006

Audit Adjustments

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

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

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

Effect: The following audit adjustments were necessary to be recorded for December 31, 2014:

- Adjustments were made to the General Fund to reclassify \$3,748,050 initially recorded as other general government expenditures to water quality program expenditures, health and human services expenditures, and septic loan expenditures. \$3,473,091 of the adjustment is related to the closing of the Family Services Special Revenue Fund. Health and human services expenditures previously reported in the Family Services Special Revenue Fund are now being reported in the General Fund.

- Adjustments were made in the General Fund to reclassify the unassigned fund balance of \$934,331 to nonspendable, restricted, and assigned fund balance amounts based on changes in fund activity during the year.
- An adjustment of \$876,928 was set up in the Family Services Special Revenue Fund as a special item to account for the transfer of human services operations to Des Moines Valley Health and Human Services.
- An adjustment of \$89,780 was made in the Landfill Enterprise Fund to reclassify debt payments as a reduction in loans and interest expense.

Cause: Cottonwood County informed us that the County has limited staff and experience in preparing financial statements. Procedures are not in place to consider the full extent of all entries needed for financial reporting.

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

Client's Response:

The County will comply with recommendations.

PREVIOUSLY REPORTED ITEM RESOLVED

Annual Adopted Budget and Budget Policy (2000-003)

The County had not developed and adopted a formal budget policy for management's administration of the County budget.

Resolution

The County Board approved a formal budget policy on December 16, 2014.

II. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 1996-006

Individual Ditch System Deficits

Criteria: Minn. Stat. § 103E.655 requires that drainage system costs be paid from the ditch system account for which the costs are being incurred. This statute allows for loans to be made from ditch systems with surplus funds or from the General Fund to a ditch system with insufficient cash to pay expenditures. Such loans must be paid back with interest.

Additionally, individual ditch systems should be maintained with a positive fund balance to display solvency. As provided by Minn. Stat. § 103E.735, subd. 1, a fund balance to be used for repairs may be established for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$100,000, whichever is larger.

Condition: The County had individual ditch systems with a deficit cash balance and deficit fund balances at December 31, 2014.

Context: Of the County's 87 ditches, at December 31, 2014, 1 ditch system had a negative cash balance of \$509, and 8 ditch systems had deficit fund balances totaling \$252,640.

Effect: The County is not in compliance with Minnesota statutes by having ditch systems with negative cash balances. Ditch systems with negative fund balances indicate that measures have not been taken to ensure that an individual ditch system can meet its financial obligations.

Cause: The County informed us that expenditures have been made for ditch systems with insufficient cash to cover the expenditures. Additionally, special assessments levied for systems have not been sufficient to meet all obligations of the systems.

Recommendation: We recommend that the County eliminate the cash deficits by borrowing from eligible funds with surplus cash balances under Minn. Stat. § 103E.655. Individual fund balance deficits should be eliminated by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1, which permits the accumulation of a surplus cash balance to provide for the repair and maintenance of the ditch systems.

Client's Response:

The County has eliminated the ditch system deficits by borrowing from eligible funds with surplus cash balances. The ditch authority will continue to increase levies to fully fund all future expenditures.

PREVIOUSLY REPORTED ITEMS RESOLVED

Noncomplying Investments (2011-003)

The County held negotiable certificates of deposit (CDs) in excess of FDIC coverage available for the depository.

Resolution

During 2014, negotiable certificates of deposit (CDs) held by the County did not exceed FDIC coverage available for the depository.

Unsecured Deposits (2013-001)

County deposits were not adequately covered by collateral throughout the entire year of 2013.

Resolution

During 2014, the County had adequate collateral coverage throughout the year.

B. OTHER ITEM FOR CONSIDERATION

GASB Statement No. 68, Accounting and Financial Reporting for Pensions

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for your calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement 68 significantly changes pension accounting and financial reporting for governmental employers that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of the County's government-wide statement of financial position. The County's financial position will be immediately impacted by its unfunded share of the pension liability.

Statement 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years—deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement 68.

The net pension liability that will be reported in Cottonwood County’s financial statements is an accounting estimate of the proportionate share of PERA’s unfunded liability at a specific point in time. That number will change from year to year and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by employers to report the net pension liability and deferred outflows/inflows of resources.

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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, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated October 7, 2015.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Recommendations, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 2006-006 to be a material weakness.

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 Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested 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 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 Political Subdivisions*, except as described in the Schedule of Findings and Recommendations as item 1996-006. 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

Also included in the Schedule of Findings and Recommendations is an other item for consideration. We believe this information to be of benefit to the County, and we are reporting it for that purpose.

Cottonwood County's Response to Findings

Cottonwood County's responses to the internal control and legal compliance findings identified in our audit have been included in the Schedule of Findings and Recommendations. 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.

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 Political Subdivisions* 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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

October 7, 2015