STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

COTTONWOOD COUNTY
WINDOM, MINNESOTA

YEAR ENDED DECEMBER 31, 2016

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 650 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, 2016

Audit Practice Division
Office of the State Auditor
State of Minnesota

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WINDOM, MINNESOTA

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Introductory Section

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COTTONWOOD COUNTY
WINDOM, MINNESOTA

ORGANIZATION
2016

Office	Name	Term Expires
Commissioners		
1st District	Jim Schmidt	January 2019
2nd District	Kevin Stevens[1]	January 2017
3rd District	Donna Gravley	January 2019
4th District	Norman Holmen	January 2017
5th District	Tom Appel[2]	January 2019
Officials		
Elected		
Attorney	Nicholas Anderson	January 2019
Auditor/Treasurer	Jan Johnson	January 2019
County Recorder	Kathleen Kretsch	January 2019
Sheriff	Jason Purrington	January 2019
Appointed		
Assessor	Gale Bondhus	December 31, 2016
Coordinator	Kelly Thongvivong	Indefinite
Highway Engineer	JinYeene Neumann	May 2018
Veterans Service Officer	Todd Dibble	Indefinite
Emergency Management Director	Paul Johnson	Indefinite

[1]Chair 2016
[2]Chair 2017

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
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, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Cottonwood County as of December 31, 2016, 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 24, 2017, 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	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

October 24, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016
(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, 2016. 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 $57,352,498, of which $50,447,461 is the net investment in capital assets, leaving $4,258,173 of the governmental activities' net position restricted for specific uses and $2,646,864 as unrestricted.

- Business-type activities have a total net position of $1,487,599, of which $922,330 is the net investment in capital assets, leaving $433,726 of the business-type net position restricted for specific uses and $131,543 as unrestricted.

- Cottonwood County's net position increased by $227,955 for the year ended December 31, 2016. This increase is comprised of an increase of $248,331 in the governmental activities' net position and a decrease of $20,376 in the business-type activities' net position.

- The net cost of governmental activities was $10,328,179 for the current fiscal year. The net cost was funded by general revenues and other items totaling $10,576,510.

- Governmental funds' fund balances increased by $160,384.

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.

Management's Discussion and Analysis
(Required supplementary information)

Government-Wide Financial Statements (pages 15 through 18) ⟷ Fund Financial Statements (pages 19 through 29)

Notes to the Financial Statements
(pages 30 through 83)

Required Supplementary Information
(other than MD&A)
(pages 84 through 93)

There are two government-wide financial statements. The Statement of Net Position and the Statement of Activities (on pages 15 through 18) 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 19. 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, deferred outflows of resources, liabilities, and deferred inflows of resources using the full accrual bases 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 19. The fund financial statements provide detailed information about the significant funds--not the County as a whole. Some funds are required to be established by state law and by bond covenants. However, the County Board establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The County's two kinds of funds--governmental and proprietary--use different accounting methods.

- Governmental funds--Most of the County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are described in a reconciliation following each governmental fund financial statement.

- Proprietary funds--When the County charges customers for the services it provides--whether to outside customers or to other units of the County--these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the County's enterprise fund presents the same information as the business-type activities in the government-wide statements but provides more detail and additional information, such as cash flows.

Reporting the County's Fiduciary Responsibilities

The County is the trustee, or fiduciary, over assets that can be used only for the trust beneficiaries based on the trust arrangement. All of the County's fiduciary activities are reported in the Statement of Fiduciary Net Position on page 29. We exclude these activities from the County's other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Other Information

In addition to the basic financial statements and notes, this report also presents certain required supplementary information concerning Cottonwood County's budgetary comparison schedules for the General Fund and the Road and Bridge Special Revenue Fund, progress in funding its obligation to provide other postemployment benefits to its employees, and statements of proportionate share of net pension liability and schedules of contributions. Required supplementary information can be found on pages 84 through 93.

THE COUNTY AS A WHOLE

The County's combined net position is $58,840,097. 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

	2016			
	Governmental Activities	Business-Type Activities	Total	2015
Assets				
Current and other assets	$ 12,982,199	$ 1,896,854	$ 14,879,053	$ 13,140,166
Capital assets	50,622,266	1,187,730	51,809,996	52,754,952
Total Assets	$ 63,604,465	$ 3,084,584	$ 66,689,049	$ 65,895,118
Deferred Outflows of Resources	$ 4,318,841	$ 47,291	$ 4,366,132	$ 580,312
Liabilities				
Long-term liabilities	$ 9,473,243	$ 1,619,599	$ 11,092,842	$ 6,926,744
Other liabilities	456,046	14,762	470,808	634,562
Total Liabilities	$ 9,929,289	$ 1,634,361	$ 11,563,650	$ 7,561,306
Deferred Inflows of Resources	$ 641,519	$ 9,915	$ 651,434	$ 301,982
Net Position				
Net investment in capital assets	$ 50,447,461	$ 922,330	$ 51,369,791	$ 52,059,545
Restricted	4,258,173	433,726	4,691,899	3,052,654
Unrestricted	2,646,864	131,543	2,778,407	3,499,943
Total Net Position	$ 57,352,498	$ 1,487,599	$ 58,840,097	$ 58,612,142

Net position of the County's governmental activities was $57,352,498. 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 $2,646,864 at the end of the year. The net position of business-type activities was $1,487,599.

Table 2
Changes in Net Position
(in Thousands)

	2016			
	Governmental Activities	Business-Type Activities	Total	2015
Revenues				
Program revenues				
Fees, fines, and charges	$ 1,343	$ 603	$ 1,946	$ 1,845
Operating grants and contributions	4,653	-	4,653	4,397
Capital grants and contributions	57	-	57	1,469
General revenues				
Property taxes	9,053	-	9,053	8,545
Other taxes	403	-	403	423
Grants, gifts, and miscellaneous	1,150	-	1,150	1,140
Total Revenues	$ 16,659	$ 603	$ 17,262	$ 17,819
Expenses				
General government	$ 3,313	$ -	$ 3,313	$ 3,153
Public safety	3,563	-	3,563	2,665
Highways and streets	5,138	-	5,138	4,706
Sanitation	330	-	330	268
Health and human services	3,022	-	3,022	2,897
Culture and recreation	261	-	261	214
Conservation of natural resources	706	-	706	704
Interest	48	-	48	45
Landfill	-	652	652	547
Total Expenses	$ 16,381	$ 652	$ 17,033	$ 15,199
Increase (decrease) before transfers	$ 278	$ (49)	$ 229	$ 2,620
Transfers (includes joint powers)	(29)	29	-	-
Increase (decrease) in net position	$ 249	$ (20)	$ 229	$ 2,620
Net Position - January 1	57,104	1,508	58,612	55,992
Net Position - December 31	$ 57,353	$ 1,488	$ 58,841	$ 58,612

The County's activities increased net position by 0.389 percent ($58,840,097 for 2016 compared to $58,612,142 for 2015).

TOTAL COUNTY REVENUE

Governmental Activities

Revenues for the County's governmental activities (see Table 2) were $16,658,429, while total expenses were $16,380,880, and transfers out were $29,218. This reflects a $248,331 increase in net position for the year ended December 31, 2016.

Business-Type Activities

Revenues of the County's business-type activities (see Table 2) were $602,598, transfers in were $29,218, and expenses were $652,192. This reflects a ($20,376) decrease in net position for the year ending December 31, 2016.

Governmental Activities' Expenses

The cost of the County's governmental activities this year was $16,380,880. However, as shown in the Statement of Activities on pages 17 and 18, the amount that taxpayers ultimately financed for these activities through County taxes and other general revenue was $10,328,179 because some of the cost was paid by those who directly benefited from the programs ($1,342,553) or by other governments and organizations that subsidized certain programs with grants and contributions ($4,710,148).

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)

	2016	
	Total Cost of Services	Net Cost of Services
Highways and streets	$ 5,138	$ 669
General government	3,313	2,959
Public safety	3,563	3,203
Health and human services	3,022	3,022
Conservation of natural resources	706	217
All others	639	258
Totals	$ 16,381	$ 10,328

THE COUNTY'S FUNDS

As the County completed the year, its governmental funds (as presented in the Balance Sheet on pages 19 through 20) reported a combined fund balance of $8,334,623, which is above last year's total of $8,174,239. The governmental funds' change in fund balance (an increase of $160,384 for 2016) represents a 2.0 percent increase in governmental fund balances.

The General Fund showed a decrease in fund balance of $161,886. Nonspendable fund balance decreased $18,263, restricted fund balance decreased $135,198, assigned fund balance decreased by $145,715, while unassigned fund balance increased by $137,290. The overall decrease in fund balance resulted from unbudgeted expenditures including, salary expenditures in the sheriff's department and water quality loan program expenditures for loans issued in 2016.

The Road and Bridge Special Revenue Fund's fund balance increased by $343,627 in 2016. The increase is a result of the department planning to work on a highway project, which was delayed until 2017.

In 2016, the Ditch Special Revenue Fund showed decrease in fund balance of $2,086.

The Building Capital Projects Fund had a decrease in fund balance of $19,271 in 2016. The decrease was due to equipment purchased in 2016 that was not included in the original budget.

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 $586,392 above the final budget amounts. The reason for variances of actual expenditures from final budget in this case are the additional unbudgeted expenditures for ag sewer loans, increased election technical costs, public safety payroll cost, board of prisoner expense, increased probation officer expense, parks costs and environmental use of fund balance for invasive species monies.

On the other hand, resources available for appropriation were $114,218 above the final budgeted amount. Increased state grants helped push revenues above expected levels.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, the County had $51,809,996 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 $944,956, or 1.79 percent, over last year.

Table 4
Changes in Capital Assets During 2016

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 321,124	$ -	$ -	$ 321,124
Right-of-way	796,481	-	-	796,481
Construction in progress	-	68,252	-	68,252
Total capital assets not depreciated	$ 1,117,605	$ 68,252	$ -	$ 1,185,857
Capital assets depreciated				
Buildings	$ 4,933,789	$ 151,412	$ 51,360	$ 5,033,841
Machinery and equipment	6,681,502	659,575	573,645	6,767,432
Infrastructure	65,063,271	-	-	65,063,271
Total capital assets depreciated	$ 76,678,562	$ 810,987	$ 625,005	$ 76,864,544
Less: accumulated depreciation for				
Buildings	$ 2,669,869	$ 94,662	$ 31,356	$ 2,733,175
Machinery and equipment	4,370,323	402,814	560,695	4,212,442
Infrastructure	19,226,175	1,256,343	-	20,482,518
Total accumulated depreciation	$ 26,266,367	$ 1,753,819	$ 592,051	$ 27,428,135
Total capital assets depreciated, net	$ 50,412,195	$ (942,832)	$ 32,954	$ 49,436,409
Governmental Activities Capital Assets, Net	$ 51,529,800	$ (874,580)	$ 32,954	$ 50,622,266

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	23,119	-	2,386,204
Machinery and equipment	915,037	92,616	28,483	979,170
Total capital assets depreciated	$ 3,301,822	$ 115,735	$ 28,483	$ 3,389,074
Less: accumulated depreciation for				
Buildings	$ 23,700	$ -	$ -	$ 23,700
Land improvements	2,010,855	51,546	-	2,062,401
Machinery and equipment	205,997	101,611	28,483	279,125
Total accumulated depreciation	$ 2,240,552	$ 153,157	$ 28,483	$ 2,365,226
Total capital assets depreciated, net	$ 1,061,270	$ (37,422)	$ -	$ 1,023,848
Business-Type Activities Capital Assets, Net	$ 1,225,152	$ (37,422)	$ -	$ 1,187,730

The County's fiscal year 2016 capital budget called for it to spend $1,560,923 on highway and bridge construction and $315,490 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 $1,651,942, versus $1,917,471 last year--a decrease of 13.85 percent--as shown in Table 5.

Table 5
Changes in Outstanding Debt During 2016

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable (fund liquidating the debt)					
G.O. Drainage Crossover Refund Bond 2011 (Ditch)	$ 610,000	$ -	$ 160,000	$ 450,000	$ 120,000
Add: unamortized premium	10,639	-	2,608	8,031	-
Total bonds payable	$ 620,639	$ -	$ 162,608	$ 458,031	$ 120,000
Loans payable	871,425	203,227	139,472	935,180	125,295
Capital lease	252,545	-	81,054	171,491	55,431
Governmental Activities Debt	$ 1,744,609	$ 203,227	$ 383,134	$ 1,564,702	$ 300,726

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Loans Payable	$ 172,862	$ -	$ 85,622	$ 87,240	$ 39,286

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 ($3,327,363,500) in the County. The County's outstanding net debt ($1,651,942) is significantly below this state-imposed limit ($99,820,905).

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 2017 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 2017 are budgeted to increase 21.3 percent from 2016.

- Property taxes levied have increased 7.0 percent for 2017.

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

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT 1

STATEMENT OF NET POSITION
DECEMBER 31, 2016

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and pooled investments	$ 8,154,716	$ 181,786	$ 8,336,502
Receivables	4,301,276	58,762	4,360,038
Internal balances	178,335	(178,335)	-
Inventories	266,509	-	266,509
Restricted assets			
Cash and pooled investments	-	1,834,641	1,834,641
Net other postemployment benefits receivable	81,363	-	81,363
Capital assets			
Non-depreciable capital assets	1,185,857	163,882	1,349,739
Depreciable capital assets - net of accumulated depreciation	49,436,409	1,023,848	50,460,257
Total Assets	**$ 63,604,465**	**$ 3,084,584**	**$ 66,689,049**
Deferred Outflows of Resources			
Deferred amount on refunding	$ 4,548	$ -	$ 4,548
Deferred pension outflows	4,314,293	47,291	4,361,584
Total Deferred Outflows of Resources	**$ 4,318,841**	**$ 47,291**	**$ 4,366,132**
Liabilities			
Accounts payable and other current liabilities	$ 373,327	$ 14,762	$ 388,089
Accrued interest payable	9,155	-	9,155
Unearned revenue	73,564	-	73,564
Long-term liabilities			
Due within one year	372,337	41,966	414,303
Due in more than one year	1,827,781	1,469,968	3,297,749
Net pension liability	7,273,125	107,665	7,380,790
Total Liabilities	**$ 9,929,289**	**$ 1,634,361**	**$ 11,563,650**

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

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT 1
(Continued)

STATEMENT OF NET POSITION
DECEMBER 31, 2016

	Governmental Activities	Business-Type Activities	Total
Deferred Inflows of Resources			
Deferred pension inflows	**$ 641,519**	**$ 9,915**	**$ 651,434**
Net Position			
Net investment in capital assets	$ 50,447,461	$ 922,330	$ 51,369,791
Restricted for			
Public safety	255,007	-	255,007
Highways and streets	2,957,056	-	2,957,056
Conservation of natural resources	654,684	-	654,684
Economic development	78,830	-	78,830
Postclosure care	-	433,726	433,726
Other purposes	312,596	-	312,596
Unrestricted	2,646,864	131,543	2,778,407
Total Net Position	**$ 57,352,498**	**$ 1,487,599**	**$ 58,840,097**

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

COTTONWOOD COUNTY
WINDOM, MINNESOTA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

	Expenses	Fees, Charges, Fines, and Other
Functions/Programs		
Governmental activities		
General government	$ 3,312,763	$ 227,743
Public safety	3,563,203	105,170
Highways and streets	5,138,422	328,054
Sanitation	329,484	233,477
Health and human services	3,021,504	-
Culture and recreation	261,363	77,335
Conservation of natural resources	706,235	370,774
Interest	47,906	-
Total governmental activities	**$ 16,380,880**	**$ 1,342,553**
Business-type activities		
Landfill	652,192	602,598
Total	**$ 17,033,072**	**$ 1,945,151**

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

Total general revenues and transfers

Change in net position

Net Position - January 1

Net Position - December 31

EXHIBIT 2

Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Business-Type Activities	Net (Expense) Revenue and Changes in Net Position: Total
$ 126,092	$ -	$ (2,958,928)	$ -	$ (2,958,928)
255,375	-	(3,202,658)	-	(3,202,658)
4,085,183	56,666	(668,519)	-	(668,519)
68,710	-	(27,297)	-	(27,297)
-	-	(3,021,504)	-	(3,021,504)
-	-	(184,028)	-	(184,028)
118,122	-	(217,339)	-	(217,339)
-	-	(47,906)	-	(47,906)
$ 4,653,482	**$ 56,666**	**$ (10,328,179)**	**$ -**	**$ (10,328,179)**
-	-	-	(49,594)	(49,594)
$ 4,653,482	**$ 56,666**	**$ (10,328,179)**	**$ (49,594)**	**$ (10,377,773)**
		$ 9,052,652	$ -	$ 9,052,652
		61,099	-	61,099
		10,309	-	10,309
		130,603	-	130,603
		200,823	-	200,823
		571,102	-	571,102
		249,747	-	249,747
		144,789	-	144,789
		184,604	-	184,604
		(29,218)	29,218	-
		$ 10,576,510	**$ 29,218**	**$ 10,605,728**
		$ 248,331	**$ (20,376)**	**$ 227,955**
		57,104,167	**1,507,975**	**58,612,142**
		$ 57,352,498	**$ 1,487,599**	**$ 58,840,097**

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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, 2016

	General	Road and Bridge	Ditch	Building	Total Governmental Funds
Assets					
Cash and pooled investments	$ 5,545,039	$ 1,457,629	$ 780,668	$ 371,380	$ 8,154,716
Taxes receivable - delinquent	68,289	-	-	411	68,700
Special assessments					
Delinquent	15,501	-	132	-	15,633
Noncurrent	776,122	-	293,819	-	1,069,941
Accounts receivable	37,811	1,428	-	-	39,239
Accrued interest receivable	544	-	-	-	544
Loans receivable	141,985	-	-	-	141,985
Due from other funds	-	2,207	-	-	2,207
Due from other governments	-	2,965,234	-	-	2,965,234
Inventories	-	266,509	-	-	266,509
Advances to other funds	418,983	-	-	-	418,983
Total Assets	**$ 7,004,274**	**$ 4,693,007**	**$ 1,074,619**	**$ 371,791**	**$ 13,143,691**
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities					
Accounts payable	$ 155,486	$ 83,707	$ -	$ 691	$ 239,884
Salaries payable	67,425	23,008	-	-	90,433
Contracts payable	-	9,013	-	-	9,013
Due to other funds	2,032	-	-	-	2,032
Due to other governments	32,418	1,579	-	-	33,997
Unearned revenue	73,564	-	-	-	73,564
Advances from other funds	-	-	240,823	-	240,823
Total Liabilities	**$ 330,925**	**$ 117,307**	**$ 240,823**	**$ 691**	**$ 689,746**
Deferred Inflows of Resources					
Unavailable revenue	**$ 859,912**	**$ 2,965,048**	**$ 293,951**	**$ 411**	**$ 4,119,322**

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

EXHIBIT 3
(Continued)

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	General	Road and Bridge	Ditch	Building	Total Governmental Funds
Liabilities, Deferred Inflows of Resources, and Fund Balances (Continued)					
Fund Balances					
Nonspendable					
Inventories	$ -	$ 266,509	$ -	$ -	$ 266,509
Long-term loans receivable	119,034	-	-	-	119,034
Advances to other funds	418,983	-	-	-	418,983
Restricted for					
Law library	5,286	-	-	-	5,286
Recorder's technology fund	91,746	-	-	-	91,746
Enhanced 911	197,800	-	-	-	197,800
Permit to carry administration	57,207	-	-	-	57,207
Recorder's compliance fund	92,772	-	-	-	92,772
Election equipment	40,664	-	-	-	40,664
Low-interest small business loans	78,830	-	-	-	78,830
Septic/sewer loan repayments	203,459	-	-	-	203,459
Ditch maintenance and repairs	-	-	720,881	-	720,881
Land restoration	82,128	-	-	-	82,128
Assigned to					
Capital improvements	353,535	-	-	-	353,535
Canteen fund	28,602	-	-	-	28,602
Road and bridge	-	1,344,143	-	-	1,344,143
Building projects	-	-	-	370,689	370,689
Unassigned	4,043,391	-	(181,036)	-	3,862,355
Total Fund Balances	**$ 5,813,437**	**$ 1,610,652**	**$ 539,845**	**$ 370,689**	**$ 8,334,623**
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	**$ 7,004,274**	**$ 4,693,007**	**$ 1,074,619**	**$ 371,791**	**$ 13,143,691**

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

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT 4

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES DECEMBER 31, 2016

Fund balances - total governmental funds (Exhibit 3)		**$ 8,334,623**
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.		50,622,266
Net other postemployment benefits receivable are not available resources and, therefore, are not reported in the funds.		81,363
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.		4,119,322
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.		
Deferred pensions outflows		4,314,293
Deferred pensions inflows		(641,519)
Deferred outflows of resources resulting from debt refundings are not recognized in the governmental funds.		4,548
Governmental funds do not report a liability for accrued interest on long-term liabilities until due and payable.		(9,155)
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	$ (450,000)	
Unamortized premium on general obligation refunding bonds	(8,031)	
Capital leases	(171,491)	
Loans payable	(935,180)	
Compensated absences	(635,416)	
Net pension liability	(7,273,125)	(9,473,243)
Net Position of Governmental Activities (Exhibit 1)		**$ 57,352,498**

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

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT 5

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	General	Road and Bridge	Ditch	Building	Total Governmental Funds
Revenues					
Taxes	$ 7,505,406	$ 1,900,362	$ -	$ 48,460	$ 9,454,228
Special assessments	321,431	-	278,223	-	599,654
Licenses and permits	24,172	8,350	-	-	32,522
Intergovernmental	1,364,263	2,356,710	-	-	3,720,973
Charges for services	214,606	223,983	-	-	438,589
Fines and forfeits	12,670	-	-	-	12,670
Gifts and contributions	100	-	-	-	100
Investment earnings	144,789	-	-	-	144,789
Miscellaneous	311,916	95,721	3,718	88,973	500,328
Total Revenues	**$ 9,899,353**	**$ 4,585,126**	**$ 281,941**	**$ 137,433**	**$ 14,903,853**
Expenditures					
Current					
General government	$ 2,994,249	$ -	$ -	$ 156,704	$ 3,150,953
Public safety	2,857,833	-	-	-	2,857,833
Highways and streets	-	3,783,411	-	-	3,783,411
Sanitation	357,859	-	-	-	357,859
Health and human services	14,060	-	-	-	14,060
Culture and recreation	252,094	-	-	-	252,094
Conservation of natural resources	597,498	-	97,645	-	695,143
Intergovernmental	3,007,444	392,966	-	-	3,400,410
Debt service					
Principal	139,472	81,054	160,000	-	380,526
Interest	14,739	7,854	25,887	-	48,480
Administrative (fiscal) charges	-	-	495	-	495
Total Expenditures	**$ 10,235,248**	**$ 4,265,285**	**$ 284,027**	**$ 156,704**	**$ 14,941,264**
Excess of Revenues Over (Under) Expenditures	**$ (335,895)**	**$ 319,841**	**$ (2,086)**	**$ (19,271)**	**$ (37,411)**
Other Financing Sources (Uses)					
Transfers out	$ (29,218)	$ -	$ -	$ -	$ (29,218)
Loans issued	203,227	-	-	-	203,227
Total Other Financing Sources (Uses)	**$ 174,009**	**$ -**	**$ -**	**$ -**	**$ 174,009**
Net Change in Fund Balances	**$ (161,886)**	**$ 319,841**	**$ (2,086)**	**$ (19,271)**	**$ 136,598**
Fund Balances - January 1	**5,975,323**	**1,267,025**	**541,931**	**389,960**	**8,174,239**
Increase (decrease) in inventories	**-**	**23,786**	**-**	**-**	**23,786**
Fund Balances - December 31	**$ 5,813,437**	**$ 1,610,652**	**$ 539,845**	**$ 370,689**	**$ 8,334,623**

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

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, 2016

Net change in fund balances - total governmental funds (Exhibit 5)		**$ 136,598**
Amounts reported for governmental activities in the statement of activities are different because:		
In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in unavailable revenue.		
Unavailable revenue - December 31	$ 4,119,322	
Unavailable revenue - January 1	(2,384,908)	1,734,414
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	$ 879,239	
Net book value of assets disposed	(32,954)	
Current year depreciation	(1,753,819)	(907,534)
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		(203,227)
Principal payments		
General obligation bonds	$ 160,000	
Capital lease	81,054	
Loans payable	139,472	380,526
Amortization of premium and deferred amount of refunding		(1,945)
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	$ 3,014	
Change in compensated absences payable	(42,393)	
Change in net other postemployment benefits receivable	2,433	
Change in inventories	23,786	
Change in net pension liability	(4,287,267)	
Change in deferred pension outflows	3,754,505	
Change in deferred pension inflows	(344,579)	(890,501)
Change in Net Position of Governmental Activities (Exhibit 2)		**$ 248,331**

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

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PROPRIETARY FUND

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COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT 7

STATEMENT OF FUND NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2016

		Landfill Enterprise Fund
Assets		
Current assets		
Cash and pooled investments	$	181,786
Accounts receivable		58,762
Restricted assets		
Cash and pooled investments		1,834,641
Total current assets	**$**	**2,075,189**
Noncurrent assets		
Capital assets		
Nondepreciable	$	163,882
Depreciable - net		1,023,848
Total noncurrent assets	**$**	**1,187,730**
Total Assets	**$**	**3,262,919**
Deferred Outflows of Resources		
Deferred pension outflows	**$**	**47,291**
Liabilities		
Current liabilities		
Accounts payable	$	10,081
Salaries payable		3,138
Due to other funds		175
Due to other governments		1,543
Loans payable - current		39,286
Compensated absences payable - current		2,680
Total current liabilities	**$**	**56,903**
Noncurrent liabilities		
Loans payable - long-term	$	47,954
Advances from other funds		178,160
Compensated absences payable - long-term		21,099
Estimated liability for landfill closure/postclosure care		1,400,915
Net pension liability		107,665
Total noncurrent liabilities	**$**	**1,755,793**
Total Liabilities	**$**	**1,812,696**

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

EXHIBIT 7
(Continued)

STATEMENT OF FUND NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2016

	Landfill Enterprise Fund
Deferred Inflows of Resources	
Deferred pension inflows	**$ 9,915**
Net Position	
Net investment in capital assets	$ 922,330
Restricted for postclosure care	433,726
Unrestricted	131,543
Total Net Position	**$ 1,487,599**

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT 8

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

		Landfill Enterprise Fund
Operating Revenues		
Charges for services	$	581,405
Licenses and permits		247
Miscellaneous		20,946
Total Operating Revenues	**$**	**602,598**
Operating Expenses		
Personal services	$	189,368
Professional services		26,669
Other services and charges		205,354
Utilities		8,834
Depreciation		153,157
Landfill closure and postclosure care costs		64,652
Total Operating Expenses	**$**	**648,034**
Operating Income (Loss)	**$**	**(45,436)**
Nonoperating Expenses		
Interest expense		4,158
Income (Loss) Before Transfers	**$**	**(49,594)**
Transfers in		29,218
Change in Net Position	**$**	**(20,376)**
Net Position - January 1	**$**	**1,507,975**
Net Position - December 31	**$**	**1,487,599**

EXHIBIT 9

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2016
Increase (Decrease) in Cash and Cash Equivalents

	Landfill Enterprise Fund
Cash Flows from Operating Activities	
Receipts from customers and users	$ 596,833
Payments to suppliers	(229,140)
Payments to employees	(187,576)
Net cash provided by (used in) operating activities	**$ 180,117**
Cash Flows from Noncapital Financing Activities	
Transfers in	**$ 29,218**
Cash Flows from Capital and Related Financing Activities	
Interest expense	$ (4,158)
Payments on loan	(85,622)
Advance from other funds	(41,840)
Purchase of capital assets	(115,735)
Net cash provided by (used in) capital and related financing activities	**$ (247,355)**
Net Increase (Decrease) in Cash and Cash Equivalents	**$ (38,020)**
Cash and Cash Equivalents - January 1	**2,054,447**
Cash and Cash Equivalents - December 31	**$ 2,016,427**
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position - Exhibit 7	
Cash and pooled investments	$ 181,786
Restricted cash and pooled investments	1,834,641
Total Cash and Cash Equivalents - December 31	**$ 2,016,427**

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT 9
(Continued)

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2016
Increase (Decrease) in Cash and Cash Equivalents

	Landfill Enterprise Fund
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	**$ (45,436)**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	$ 153,157
Landfill closure and postclosure care costs	64,652
(Increase) decrease in accounts receivable	(7,789)
(Increase) decrease in due from other governments	2,024
(Increase) decrease in deferred pension outflows	(35,868)
Increase (decrease) in accounts payable	9,999
Increase (decrease) in salaries payable	(4,528)
Increase (decrease) in due to other funds	175
Increase (decrease) in due to other governments	1,543
Increase (decrease) in compensated absences payable	(1,785)
Increase (decrease) in net pension liability	39,100
Increase (decrease) in deferred pension inflows	4,873
Total adjustments	**$ 225,553**
Net Cash Provided by (Used in) Operating Activities	**$ 180,117**

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FIDUCIARY FUNDS

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COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2016

	Agency
Assets	
Cash and pooled investments	$ 768,515
Liabilities	
Due to other governments	$ 768,515

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1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as of and for the year ended December 31, 2016. 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.

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.

1. Summary of Significant Accounting Policies

   B. Basic Financial Statements

      2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

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

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

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

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

The County reports the following major enterprise fund:

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

Additionally, the County reports the following fund type:

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

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

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

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

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

1. Cash and Cash Equivalents

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

1. Summary of Significant Accounting Policies

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Investments are reported at their fair value at December 31, 2016. A market approach is used to value all investments. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds may receive investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2016 were $144,789.

3. Receivables and Payables

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

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

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

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

1. Summary of Significant Accounting Policies

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

4. Special Assessments Receivable

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

5. Inventories

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

6. Restricted Assets

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

7. Capital Assets

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

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

1. Summary of Significant Accounting Policies

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

7. Capital Assets (Continued)

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

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

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

8. Compensated Absences

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

1. Summary of Significant Accounting Policies

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

9. Long-Term Obligations

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

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

10. Unearned Revenue

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

11. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. The County has two items, deferred amount on refunding and deferred pension outflows, that qualify for reporting in this category. These outflows arise only under the full accrual basis of accounting. The deferred amount on refunding is being amortized over the remaining life of the refunding bonds as part of interest expense. The deferred pension outflows consist of pension plan contributions paid subsequent to the measurement date, changes in actuarial assumptions, pension plan changes in proportionate share, differences between expected and actual pension plan economic experience, and differences between projected and actual earnings on pension plan investments. No deferred outflows of resources affect the governmental fund financial statements in the current year.

1. Summary of Significant Accounting Policies

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

11. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has two items, unavailable revenue and deferred pension inflows, that qualify for reporting in this category. Unavailable revenue arises only under a modified accrual basis of accounting and, accordingly, 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. Deferred pension inflows arise only under a full accrual basis of accounting and, accordingly, are reported only in the statement of net position. This amount consists of differences between expected and actual pension plan economic experience and pension plan changes in proportionate share.

12. Pension Plan

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

13. Classification of Net Position

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

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

1. Summary of Significant Accounting Policies

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

13. 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.

14. Classification of Fund Balances

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

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

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

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

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.

1. Summary of Significant Accounting Policies

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

14. Classification of Fund Balances (Continued)

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.

1. Summary of Significant Accounting Policies

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

15. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Balance

The Ditch Special Revenue Fund had a positive fund balance of $539,845 as of December 31, 2016, however, 10 of the 87 ditch systems had deficit balances. The deficits will be eliminated with future special assessment levies against the benefited properties. The following is a summary of the individual ditch systems:

77 ditches with positive fund balances	$ 720,881
10 ditches with deficit fund balances	(181,036)
Total Fund Balance	$ 539,845

B. Excess of Expenditures Over Appropriations

For the year ended December 31, 2016, the Building Capital Projects Fund's expenditures exceeded appropriations by $19,704. The expenditures in excess of budget were funded by available fund balance.

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	$	8,154,716
Business-type activities		
Cash and pooled investments		181,786
Cash and pooled investments - restricted assets		1,834,641
Statement of fiduciary net position		
Agency funds		
Cash and pooled investments		768,515
Total Cash and Investments	$	10,939,658

a. Deposits

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

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

3. Detailed Notes on All Funds

   A. Assets

      1. Deposits and Investments

         a. Deposits (Continued)

            Custodial Credit Risk

            Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County has adopted a policy for custodial credit risk by obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law. As of December 31, 2016, the County's deposits were not exposed to custodial credit risk.

         b. Investments

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

            (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;

            (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

            (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

(4) time deposits that are fully insured by the Federal Deposit Insurance Corporation or bankers' acceptances of United States banks;

(5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

(6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Fair Value of Investments

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

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

At December 31, 2016, the County had the following recurring fair value measurements.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Fair Value of Investments (Continued)

	December 31, 2016	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Debt securities				
U.S. agencies	$ 702,332	$ -	$ 702,332	$ -
Negotiable certificates of deposit	5,703,818	-	5,703,818	-
Total Investments Included in the Fair Value Hierarchy	$ 6,406,150	$ -	$ 6,406,150	$ -

Debt securities classified in Level 2 are valued using the following approaches:

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

Interest Rate Risk

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

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, 2016, 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.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

The following table presents the County's cash and investment balances at December 31, 2016, and information relating to potential investment risks:

Investment Type	Credit Risk Credit Rating	Credit Risk Rating Agency	Concentration Risk Over 5% of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
U.S. government agency securities					
Federal National Mortgage Association note	AA-	S&P		10/09/2019	$ 109,055
Federal National Mortgage Association note (1)	AA+	S&P		08/24/2021	198,680
Total Federal National Mortgage Association notes			N/A		$ 307,735
Federal Home Loan Mortgage Corporation note (1)	AA+	S&P		09/30/2021	$ 99,120
Federal Home Loan Mortgage Corporation note (1)	AA+	S&P		10/28/2021	98,940
Federal Home Loan Mortgage Corporation note (1)	AA+	S&P		10/27/2023	98,140
Total Federal Home Loan Mortgage Corporation notes			N/A		$ 296,200
Federal Home Loan Bank bond (1)	AA+	S&P	N/A	06/16/2021	$ 98,397
Negotiable certificates of deposit with brokers	N/A	N/A	N/A	Various	$ 5,703,818
Total investments					$ 6,406,150
Checking					3,407,158
Savings					1,025,000
Petty cash and change funds					4,350
Certificates of deposit					97,000
Total Cash and Investments					$ 10,939,658

(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

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2016, 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	$ 68,700	$ -
Special assessments - delinquent	15,633	-
Special assessments - noncurrent	1,069,941	817,795
Accounts	39,239	-
Interest	544	-
Loans	141,985	129,809
Due from other governments	2,965,234	-
Total Governmental Activities	$ 4,301,276	$ 947,604
Business-Type Activities		
Accounts	$ 58,762	$ -

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, 2016, the outstanding loan balance was $8,929. 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, 2016, the outstanding loan balance was $9,744.

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 2.00 percent interest to help construct a new administrative building. Funds were issued to the Southwest Mental Health Center on May 23, 2013. At December 31, 2016, the outstanding loan balance was $119,034. On February 24, 2016, the County Board approved the issuance of a $5,500 loan to Plum Creek Market to be repaid at $156 per month at 1.25 percent interest for three years. At December 31, 2016, the outstanding loan balance was $4,278.

3. Capital Assets

Capital asset activity for the year ended December 31, 2016, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 321,124	$ -	$ -	$ 321,124
Right-of-way	796,481	-	-	796,481
Construction in progress	-	68,252	-	68,252
Total capital assets not depreciated	$ 1,117,605	$ 68,252	$ -	$ 1,185,857
Capital assets depreciated				
Buildings	$ 4,933,789	$ 151,412	$ 51,360	$ 5,033,841
Machinery and equipment	6,681,502	659,575	573,645	6,767,432
Infrastructure	65,063,271	-	-	65,063,271
Total capital assets depreciated	$ 76,678,562	$ 810,987	$ 625,005	$ 76,864,544
Less: accumulated depreciation for				
Buildings	$ 2,669,869	$ 94,662	$ 31,356	$ 2,733,175
Machinery and equipment	4,370,323	402,814	560,695	4,212,442
Infrastructure	19,226,175	1,256,343	-	20,482,518
Total accumulated depreciation	$ 26,266,367	$ 1,753,819	$ 592,051	$ 27,428,135
Total capital assets depreciated, net	$ 50,412,195	$ (942,832)	$ 32,954	$ 49,436,409
Governmental Activities Capital Assets, Net	$ 51,529,800	$ (874,580)	$ 32,954	$ 50,622,266

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	23,119	-	2,386,204
Machinery and equipment	915,037	92,616	28,483	979,170
Total capital assets depreciated	$ 3,301,822	$ 115,735	$ 28,483	$ 3,389,074
Less: accumulated depreciation for				
Buildings	$ 23,700	$ -	$ -	$ 23,700
Land improvements	2,010,855	51,546	-	2,062,401
Machinery and equipment	205,997	101,611	28,483	279,125
Total accumulated depreciation	$ 2,240,552	$ 153,157	$ 28,483	$ 2,365,226
Total capital assets depreciated, net	$ 1,061,270	$ (37,422)	$ -	$ 1,023,848
Business-Type Activities Capital Assets, Net	$ 1,225,152	$ (37,422)	$ -	$ 1,187,730

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

Governmental Activities	
General government	$ 50,915
Public safety	111,670
Highways and streets, including depreciation of infrastructure assets	1,584,574
Conservation of natural resources	1,330
Culture and recreation	3,686
Sanitation	1,644
Total Depreciation Expense - Governmental Activities	$ 1,753,819
Business-Type Activities	
Landfill	$ 153,157

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2016, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
Road and Bridge Special Revenue	General	$ 2,032
Road and Bridge Special Revenue	Landfill Enterprise	175
Total Due To/From Other Funds		$ 2,207

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

2. Advances To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Ditch Special Revenue	$ 240,823
General	Landfill Enterprise	178,160
Total Advances To/From Other Funds		$ 418,983

The advance to the Ditch Special Revenue Fund is to provide working capital to ditch systems with low reserves and current operating costs in excess of its revenues. This balance will be paid from future ditch special assessments. The advance to the Landfill Enterprise Fund is to provide a loan to purchase new equipment. The balance will be paid from future charges for services.

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2016, consisted of the following:

Transfers to Landfill Enterprise Fund from General Fund	$ 29,218	Interest distribution

3. Detailed Notes on All Funds (Continued)

C. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2016, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	$ 239,884	$ 10,081
Salaries	90,433	3,138
Contracts	9,013	-
Due to other governments	33,997	1,543
Total Payables	$ 373,327	$ 14,762

2. Construction Commitments

The County has active construction projects as of December 31, 2016. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Roads and bridges	$ 81,613	$ 1,182,901

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 five elected officials who were eligible for this benefit in 2016. The cost for this program totaled $21,564 in 2016.

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

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 $18,122 for 2016.

Annual OPEB Cost and Net OPEB Receivable

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 receivable to the plan.

ARC	$ 34,999
Interest on net OPEB receivable	(789)
Adjustment to ARC	3,043
Annual OPEB cost (expense)	$ 37,253
Contributions made during the year	(39,686)
(Increase) decrease in net OPEB receivable	$ (2,433)
Net OPEB Obligation/(Receivable) - January 1	(78,930)
Net OPEB Obligation/(Receivable) - December 31	$ (81,363)

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

3. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Receivable (Continued)

The County's annual OPEB cost; the percentage of annual OPEB cost contributed to the plan; and the net OPEB receivable for the years ended December 31, 2014, 2015, and 2016, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation/ (Receivable)
December 31, 2014	$ 37,430	$ 32,234	86.1	$ (79,940)
December 31, 2015	37,282	36,272	97.3	(78,930)
December 31, 2016	37,253	39,686	106.5	(81,363)

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.

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

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, 2016, was 21 years.

4. Capital Lease

The County has entered into a capital lease agreement to finance equipment for the Highway Department. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The lease is as follows at December 31, 2016:

Capital Lease	Final Maturity	Installment Amount	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2016
2012 John Deere motor graders	2019	$ 60,736	3.05	$ 377,077	$ 171,491

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

4. Capital Lease (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2016, were as follows:

Year Ending December 31	Governmental Activities
2017	$ 60,736
2018	60,736
2019	60,736
Total minimum lease payments	$ 182,208
Less: amount representing interest	(10,717)
Present Value of Minimum Lease Payments	$ 171,491

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, 2016
Special assessment bonds with government commitment					
2011 G.O. Drainage Refunding Bonds	2020	$105,000 - $120,000	2.05	$ 1,090,000	$ 450,000
Add: unamortized premium					8,031
Total Governmental Activities, Net					$ 458,031

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

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, 2016, were as follows:

Governmental Activities

Year Ending	Special Assessment Bonds		Loans Payable	
December 31	Principal	Interest	Principal	Interest
2017	$ 120,000	$ 8,118	$ 125,295	$ 7,771
2018	115,000	5,767	127,570	8,345
2019	110,000	3,490	115,502	7,052
2020	105,000	1,181	116,564	5,741
2021	-	-	104,811	4,466
2022 - 2026	-	-	323,805	8,738
2027	-	-	21,633	107
Total	$ 450,000	$ 18,556	$ 935,180	$ 42,220

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

6. Debt Service Requirements (Continued)

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	Loans Payable Interest
2017	$ 39,286	$ 2,142
2018	47,954	839
Total	$ 87,240	$ 2,981

7. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2016, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable (fund liquidating the debt)					
G.O. Drainage Crossover Refund Bond 2011 (Ditch)	$ 610,000	$ -	$ 160,000	$ 450,000	$ 120,000
Add: unamortized premium	10,639	-	2,608	8,031	-
Total bonds payable	$ 620,639	$ -	$ 162,608	$ 458,031	$ 120,000
Loans payable	871,425	203,227	139,472	935,180	125,295
Capital lease	252,545	-	81,054	171,491	55,431
Compensated absences	593,023	289,357	246,964	635,416	71,611
Governmental Activities Long-Term Liabilities	$ 2,337,632	$ 492,584	$ 630,098	$ 2,200,118	$ 372,337

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

7. Changes in Long-Term Liabilities

Governmental Activities (Continued)

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

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Loans payable	$ 172,862	$ -	$ 85,622	$ 87,240	$ 39,286
Estimated liability for landfill closure and postclosure care	1,336,263	64,652	-	1,400,915	-
Compensated absences	25,564	4,681	6,466	23,779	2,680
Business-Type Activities Long-Term Liabilities	$ 1,534,689	$ 69,333	$ 92,088	$ 1,511,934	$ 41,966

8. Unearned Revenue/Deferred Inflows of Resources - Unavailable Revenue

Unearned revenue and deferred inflows of resources as of December 31, 2016, for the County’s governmental funds are as follows:

	Unearned Revenue	Unavailable Revenue
Delinquent property taxes	$ -	$ 68,700
Special assessments receivable, delinquent and noncurrent	-	1,085,574
Highway allotments that do not provide current financial resources	-	2,965,048
Grants	73,564	-
Total Governmental Funds	$ 73,564	$ 4,119,322

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 $1,400,915 landfill closure and postclosure care liability at December 31, 2016, represents the cumulative amount reported to date based on the use of 71 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of $579,692 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2016.

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, 2016, the County has $1,834,641 in assets restricted for these purposes. Cottonwood County expects that future inflation costs will be paid from investment earnings on these annual contributions. However, if investment earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws and regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

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.

5. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at $500,000 per claim in 2016 and 2017. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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

6. Pension Plans

A. Defined Benefit Pension Plans

1. Plan Description

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

6. Pension Plans

A. Defined Benefit Pension Plans

1. Plan Description (Continued)

The General Employees Retirement Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan, for which 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 Plan (accounted for in the Police and Fire Fund). For members first hired after June 30, 2010, but before July 1, 2014, benefits vest on a graduated schedule starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years. Benefits for members first hired after June 30, 2014, vest on a prorated basis from 50 percent after 10 years and increasing 5 percent for each year of service until fully vested after 20 years.

Local government employees of a county-administered facility who are responsible for the direct security, custody, and control of the county correctional facility and its inmates are covered by the Public Employees Correctional Plan (accounted for in the Correctional Fund). For members hired after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years.

2. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual 1.0 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

6. Pension Plans

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

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

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Plan Coordinated and Basic Plan members. Members hired prior to July 1, 1989, receive the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a 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. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service 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. Only Method 2 is used for members hired after June 30, 1989. For Public Employees Police and Fire Plan members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Plan members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

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

6. Pension Plans

A. Defined Benefit Pension Plans (Continued)

3. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Retirement Plan Basic members and Coordinated members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in 2016. Public Employees Police and Fire Plan members were required to contribute 10.80 percent of their annual covered salary in 2016. Public Employees Correctional Plan members were required to contribute 5.83 percent of their annual covered salary in 2016.

In 2016, the County was required to contribute the following percentages of annual covered salary:

General Employees Retirement Plan	
Basic Plan members	11.78%
Coordinated Plan members	7.50
Public Employees Police and Fire Plan	16.20
Public Employees Correctional Plan	8.75

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

The County's contributions for the year ended December 31, 2016, to the pension plans were:

General Employees Retirement Plan	$	221,212
Public Employees Police and Fire Plan		115,740
Public Employees Correctional Plan		49,357

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

6. Pension Plans

A. Defined Benefit Pension Plans (Continued)

4. Pension Costs

General Employees Retirement Plan

At December 31, 2016, the County reported a liability of $3,588,821 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.0442 percent. It was 0.0441 percent measured as of June 30, 2015. The County recognized pension expense of $510,961 for its proportionate share of the General Employees Retirement Plan's pension expense.

The County also recognized $13,952 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute $6 million to the General Employees Retirement Plan each year, starting September 15, 2015, through September 15, 2031.

County's proportionate share of the net pension liability	$ 3,588,821
State of Minnesota's proportionate share of the net pension liability associated with the County	46,790
Total	$ 3,635,611

6. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 291,365
Changes in actuarial assumptions	702,694	-
Difference between projected and actual investment earnings	680,086	-
Changes in proportion	7,774	39,118
Contributions paid to PERA subsequent to the measurement date	118,094	-
Total	$ 1,508,648	$ 330,483

The $118,094 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2017	$ 291,710
2018	291,710
2019	347,735
2020	128,916

6. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Police and Fire Plan

At December 31, 2016, the County reported a liability of $2,769,090 for its proportionate share of the Public Employees Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.069 percent. It was 0.064 percent measured as of June 30, 2015. The County recognized pension expense of $491,771 for its proportionate share of the Public Employees Police and Fire Plan's pension expense.

The County also recognized $6,210 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Public Employees Police and Fire Plan. Legislation requires the State of Minnesota to contribute $9 million to the Public Employees Police and Fire Plan each year, starting in fiscal year 2014, until the plan is 90 percent funded.

6. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Plan (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 310,297
Changes in actuarial assumptions	1,523,951	-
Difference between projected and actual investment earnings	415,159	-
Changes in proportion	61,744	-
Contributions paid to PERA subsequent to the measurement date	57,592	-
Total	$ 2,058,446	$ 310,297

The $57,592 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2017	$ 362,791
2018	362,791
2019	362,791
2020	331,116
2021	271,068

6. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Correctional Plan

At December 31, 2016, the County reported a liability of $1,022,879 for its proportionate share of the Public Employees Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.28 percent. It was 0.27 percent measured as of June 30, 2015. The County recognized pension expense of $289,185 for its proportionate share of the Public Employees Correctional Plan's pension expense.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 801	$ 10,654
Changes in actuarial assumptions	651,697	-
Difference between projected and actual investment earnings	113,957	-
Changes in proportion	1,915	-
Contributions paid to PERA subsequent to the measurement date	26,120	-
Total	$ 794,490	$ 10,654

6. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Correctional Plan (Continued)

The $26,120 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2017	$ 243,600
2018	243,600
2019	248,550
2020	21,966

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2016, was $1,291,917.

5. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

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

6. Pension Plans

   A. Defined Benefit Pension Plans

      5. Actuarial Assumptions (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants in the General Employees Retirement Plan were based on RP-2014 tables, while mortality rates for the Public Employees Police and Fire Plan and the Public Employees Correctional Plan were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Plan and the Public Employees Police and Fire Plan, cost of living benefit increases for retirees are assumed to be 1.0 percent. Cost of living benefit increases for retirees are assumed to be 2.5 percent for the Public Employees Correctional Plan.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Plan was for the period 2008 through 2015. The experience study for the Public Employees Police and Fire Plan was for the period 2004 through 2009. The experience study for the Public Employees Correctional Plan was for the period 2006 through 2011.

On August 16, 2016, an updated experience study was done for PERA's Public Employees Police and Fire Plan for the period 2011 through 2015, which would result in a larger pension liability. However, PERA will implement the changes in assumptions for its June 30, 2017, estimate of pension liability.

The long-term expected rate of return on pension plan investments is 7.5 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

6. Pension Plans

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	45%	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2016, a reduction of the 7.90 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Retirement Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. In the Public Employees Police and Fire Plan and the Public Employees Correctional Plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056, and June 30, 2058, respectively. Beginning in fiscal years ended June 30, 2057, for the Police and Fire Plan and June 30, 2059, for the Public Employees Correctional Plan, when projected benefit payments exceed the Plans' projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85 percent based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60 percent for the Public Employees Police and Fire Plan and 5.31 percent for the Public Employees Correctional Plan was determined that produced approximately the same present value of the projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50 percent applied to all years of projected benefits through the point of asset depletion and 2.85 percent thereafter.

6. Pension Plans

A. Defined Benefit Pension Plans (Continued)

7. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2016:

General Employees Retirement Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.

- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Public Employees Police and Fire Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent per year thereafter, to 1.00 percent for all future years.

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.60 percent.

- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

6. Pension Plans

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions (Continued)

Public Employees Correctional Plan

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.31 percent.

- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

8. Pension Liability Sensitivity

The following presents the County's proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

	Proportionate Share of the					
	General Employees Retirement Plan		Public Employees Police and Fire Plan		Public Employees Correctional Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	6.50%	$ 5,097,189	4.60%	$ 3,876,359	4.31%	$ 1,540,140
Current	7.50	3,588,821	5.60	2,796,090	5.31	1,022,879
1% Increase	8.50	2,346,336	6.60	1,864,368	6.31	619,058

9. Pension Plan Fiduciary Net Position

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

6. 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. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by Cottonwood County during the year ended December 31, 2016, were:

	Employee	Employer
Contribution amount	$ 6,524	$ 6,524
Percentage of covered payroll	5%	5%

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.

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

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 2016 for the health and human services function were $3,007,444.

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

Cottonwood County Family Services Collaborative

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

The Collaborative is financed primarily by state grants. Control of the Collaborative is vested in a 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 2016, 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.

7. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

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.

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 in equal shares. The current assessment is $1,500.

7. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwest Regional Solid Waste Commission (Continued)

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

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

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

Southwestern Mental Health Center, Inc.

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

7. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwestern Mental Health Center, Inc. (Continued)

For 2016, Cottonwood County paid a total of $3,040 to the Southwestern Mental Health Center, Inc., for mental health services. Complete financial statements for the Southwestern Mental Health Center, Inc., can be obtained at 216 East Luverne Street, Luverne, Minnesota 56156.

Rural Minnesota Energy Board

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

Southwest Minnesota Regional Emergency Communications Board

As of August 23, 2013, the Southwest Minnesota Regional Radio Board changed its name to the Southwest Minnesota Regional Emergency Communications Board. The Southwest Minnesota Regional Radio Board Joint Powers Board was established April 22, 2008, between Cottonwood County, the 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 2016, Cottonwood County contributed $2,511 to the Joint Powers Board.

7. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Southern Prairie Community Care

In 2014, the Southern Prairie Health Purchasing Alliance changed its name to Southern Prairie Community Care. 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 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.

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 contributed $2,525 to this organization in 2016.

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

7. Summary of Significant Contingencies and Other Items

B. Joint Ventures

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

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 2016, Cottonwood County made contributions of $18,220 to the A.C.E. of Southwest Minnesota.

C. Jointly-Governed Organizations

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

Area II Minnesota River Basin Project

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

Greater Blue Earth River Basin Alliance

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

7. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Redwood-Cottonwood Rivers Control Area

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

Heron Lake Watershed District

The Heron Lake Watershed District was established to protect and improve water resources within the watershed border. The County Board is responsible for appointing two members of the Board of Managers for the Heron Lake Watershed District, but Cottonwood County's responsibility does not extend beyond making the appointments. During the year, Cottonwood County made no payments to the District.

Region Five - Southwest Minnesota Homeland Security Emergency Management Organization

The Region Five - Southwest Minnesota Homeland Security Emergency Management Organization was established to provide for regional coordination of planning, training, purchase of equipment, and allocating emergency services and staff in order to better respond to emergencies and natural or other disasters within the region. Control is vested in the Board, which is composed of representatives appointed by each Board of County Commissioners. Cottonwood County's responsibility does not extend beyond making this appointment. During the year, Cottonwood County paid $15 in membership fees.

Minnesota Criminal Justice Data Communications Network

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

7. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Sentencing 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. During the year, Cottonwood County contributed $60,266 to the program.

South Central Minnesota County Comprehensive Water Planning Project

The South Central Minnesota County Comprehensive Water Planning Project was established to provide regional water quality to Minnesota River Basin member counties. The project involves Blue Earth, Brown, Cottonwood, Faribault, Freeborn, Jackson, Le Sueur, Martin, Nicollet, Sibley, Steele, Waseca, and Watonwan Counties. Cottonwood County did not contribute to the Project in 2016.

Southwest Minnesota Immunization Information Connection

The Southwest Minnesota Immunization Information Connection (SW-MIIC) Joint Powers Board promotes the implementation and maintenance of a regional immunization information system to ensure age-appropriate immunizations through complete and accurate records. Cottonwood County did not contribute to the SW-MIIC during 2016.

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, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 7,837,867	$ 7,837,867	$ 7,505,406	$ (332,461)
Special assessments	329,000	329,000	321,431	(7,569)
Licenses and permits	15,960	15,960	24,172	8,212
Intergovernmental	1,073,307	1,073,307	1,364,263	290,956
Charges for services	191,300	191,300	214,606	23,306
Fines and forfeits	19,500	19,500	12,670	(6,830)
Gifts and contributions	-	-	100	100
Investment earnings	86,000	86,000	144,789	58,789
Miscellaneous	232,201	232,201	311,916	79,715
Total Revenues	**$ 9,785,135**	**$ 9,785,135**	**$ 9,899,353**	**$ 114,218**
Expenditures				
Current				
General government				
Commissioners	$ 434,607	$ 434,607	$ 456,302	$ (21,695)
Courts	31,500	31,500	32,290	(790)
Law library	13,500	13,500	15,970	(2,470)
Auditor/treasurer	499,052	499,052	508,603	(9,551)
Assessor	444,084	444,084	407,860	36,224
Office of technology	186,301	186,301	185,394	907
Elections	106,754	106,754	168,688	(61,934)
Attorney	359,916	359,916	350,035	9,881
Recorder	273,453	273,453	266,941	6,512
Building and plant	155,538	155,538	146,646	8,892
Veterans service officer	117,402	117,402	110,034	7,368
Other general government	198,389	198,389	345,486	(147,097)
Total general government	**$ 2,820,496**	**$ 2,820,496**	**$ 2,994,249**	**$ (173,753)**
Public safety				
Sheriff	$ 1,305,882	$ 1,305,882	$ 1,412,374	$ (106,492)
Drug task force	-	-	10,000	(10,000)
Emergency services	98,797	98,797	79,136	19,661
Coroner	16,000	16,000	15,867	133
Safety program	13,380	13,380	11,685	1,695
Jail	1,156,424	1,156,424	1,156,394	30
Probation and parole	134,145	134,145	172,377	(38,232)
Total public safety	**$ 2,724,628**	**$ 2,724,628**	**$ 2,857,833**	**$ (133,205)**
Sanitation				
Recycling	**$ 291,964**	**$ 291,964**	**$ 357,859**	**$ (65,895)**
Health and human services				
Environmental health	**$ 13,700**	**$ 13,700**	**$ 14,060**	**$ (360)**

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

EXHIBIT A-1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Expenditures				
Current (Continued)				
Culture and recreation				
Parks	$ 168,498	$ 168,498	$ 191,581	$ (23,083)
Regional library	60,467	60,467	60,513	(46)
Total culture and recreation	**$ 228,965**	**$ 228,965**	**$ 252,094**	**$ (23,129)**
Conservation of natural resources				
Extension	$ 130,078	$ 130,078	$ 126,868	$ 3,210
Soil and water conservation	122,474	122,474	112,461	10,013
Water planning	121,743	121,743	84,927	36,816
Water quality loan program	-	-	180,578	(180,578)
Environmental services	79,041	79,041	92,664	(13,623)
Total conservation of natural resources	**$ 453,336**	**$ 453,336**	**$ 597,498**	**$ (144,162)**
Intergovernmental				
Health and human services	**$ 2,979,767**	**$ 2,979,767**	**$ 3,007,444**	**$ (27,677)**
Debt service				
Principal	$ 136,000	$ 136,000	$ 139,472	$ (3,472)
Interest	-	-	14,739	(14,739)
Total debt service	**$ 136,000**	**$ 136,000**	**$ 154,211**	**$ (18,211)**
Total Expenditures	**$ 9,648,856**	**$ 9,648,856**	**$ 10,235,248**	**$ (586,392)**
Excess of Revenues Over (Under) Expenditures	**$ 136,279**	**$ 136,279**	**$ (335,895)**	**$ (472,174)**
Other Financing Sources (Uses)				
Transfers out	$ (125,000)	$ (125,000)	$ (29,218)	$ 95,782
Loans issued	-	-	203,227	203,227
Total Other Financing Sources (Uses)	**$ (125,000)**	**$ (125,000)**	**$ 174,009**	**$ 299,009**
Net Change in Fund Balance	**$ 11,279**	**$ 11,279**	**$ (161,886)**	**$ (173,165)**
Fund Balance - January 1	**5,975,323**	**5,975,323**	**5,975,323**	**-**
Fund Balance - December 31	**$ 5,986,602**	**$ 5,986,602**	**$ 5,813,437**	**$ (173,165)**

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

EXHIBIT A-2

BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 1,885,935	$ 1,885,935	$ 1,900,362	$ 14,427
Licenses and permits	5,000	5,000	8,350	3,350
Intergovernmental	2,860,385	2,860,385	2,356,710	(503,675)
Charges for services	-	-	223,983	223,983
Miscellaneous	174,203	174,203	95,721	(78,482)
Total Revenues	**$ 4,925,523**	**$ 4,925,523**	**$ 4,585,126**	**$ (340,397)**
Expenditures				
Current				
Highways and streets				
Administration	$ 479,503	$ 479,503	$ 419,803	$ 59,700
Maintenance	1,531,698	1,531,698	1,690,268	(158,570)
Construction	1,560,923	1,560,923	461,745	1,099,178
Equipment and maintenance shops	1,098,971	1,098,971	1,211,595	(112,624)
Total highways and streets	**$ 4,671,095**	**$ 4,671,095**	**$ 3,783,411**	**$ 887,684**
Intergovernmental				
Highways and streets	**$ 379,428**	**$ 379,428**	**$ 392,966**	**$ (13,538)**
Debt service				
Principal	$ -	$ -	$ 81,054	$ (81,054)
Interest	-	-	7,854	(7,854)
Total debt service	**$ -**	**$ -**	**$ 88,908**	**$ (88,908)**
Total Expenditures	**$ 5,050,523**	**$ 5,050,523**	**$ 4,265,285**	**$ 785,238**
Excess of Revenues Over (Under) Expenditures	**$ (125,000)**	**$ (125,000)**	**$ 319,841**	**$ 444,841**
Other Financing Sources (Uses)				
Transfers in	125,000	125,000	-	(125,000)
Net Change in Fund Balance	**$ -**	**$ -**	**$ 319,841**	**$ 319,841**
Fund Balance - January 1	**1,267,025**	**1,267,025**	**1,267,025**	**-**
Increase (decrease) in inventories	**-**	**-**	**23,786**	**23,786**
Fund Balance - December 31	**$ 1,267,025**	**$ 1,267,025**	**$ 1,610,652**	**$ 343,627**

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

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT A-3

SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (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	0.00%	$ 4,124,724	9.53%
January 1, 2011	-	324,423	324,423	0.00	4,291,386	7.56
January 1, 2014	-	477,505	477,505	0.00	3,342,466	14.29

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

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT A-4

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2016

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Cottonwood County (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.0442%	$ 3,588,821	$ 46,790	$ 3,635,611	$ 2,726,276	131.64%	68.91%
2015	0.0441	2,285,491	N/A	2,285,491	2,661,420	85.87	78.19

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

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT A-5

SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2016

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2016	$ 221,212	$ 221,212	$ -	$ 2,909,196	7.60%
2015	201,271	201,271	-	2,677,647	7.52

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

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT A-6

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2016

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.069%	$ 2,769,090	$ 632,067	438.10%	63.88%
2015	0.064	727,190	581,888	124.97	86.61

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

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT A-7

SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2016

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2016	$ 115,740	$ 115,740	$ -	$ 717,150	16.14%
2015	96,819	96,819	-	613,238	15.79

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

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT A-8

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES CORRECTIONAL PLAN
DECEMBER 31, 2016

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.28%	$ 1,022,879	$ 520,527	196.51%	58.16%
2015	0.27	41,742	479,860	8.70	96.95

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

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT A-9

SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES CORRECTIONAL PLAN
DECEMBER 31, 2016

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2016	$ 49,357	$ 49,357	$ -	$ 593,595	8.31%
2015	44,352	44,352	-	483,119	9.18

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2016

1. General Budget Policies

   The Cottonwood County Board adopts estimated revenue and expenditure budgets for the General Fund and the Road and Bridge Special Revenue Fund. The expenditure budget is approved at the fund level.

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

2. Budget Basis of Accounting

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

3. Budget Amendments

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

4. Excess of Expenditures Over Appropriations

   The following fund had expenditures in excess of appropriations (the legal level of budgetary control) for the year ended December 31, 2016:

Fund	Expenditures	Final Budget	Excess
General Fund	$ 10,235,248	$ 9,648,856	$ 586,392

   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 unbudgeted equipment purchased in the Sheriff's Department.

5. Other Postemployment Benefits Funded Status

   See Note 3.C.3. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

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

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended June 30, 2016:

General Employees Retirement Plan

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

Public Employees Police and Fire Plan

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

Public Employees Correctional Plan

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

SUPPLEMENTARY INFORMATION

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GOVERNMENTAL FUNDS

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COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT B-1

BUDGETARY COMPARISON SCHEDULE
BUILDING CAPITAL PROJECTS FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 50,000	$ 50,000	$ 48,460	$ (1,540)
Miscellaneous	87,000	87,000	88,973	1,973
Total Revenues	**$ 137,000**	**$ 137,000**	**$ 137,433**	**$ 433**
Expenditures				
Current				
General government				
Buildings and plant	137,000	137,000	156,704	(19,704)
Net Change in Fund Balance	**$ -**	**$ -**	**$ (19,271)**	**$ (19,271)**
Fund Balance - January 1	**389,960**	**389,960**	**389,960**	**-**
Fund Balance - December 31	**$ 389,960**	**$ 389,960**	**$ 370,689**	**$ (19,271)**

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FIDUCIARY FUNDS

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COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT C-1

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Balance January 1	Additions	Deductions	Balance December 31
AGENCY				
Assets				
Cash and pooled investments	$ 30,800	$ 176,344	$ 175,507	$ 31,637
Liabilities				
Due to other governments	$ 30,800	$ 176,344	$ 175,507	$ 31,637
MORTGAGE REGISTRY				
Assets				
Cash and pooled investments	$ 4,905	$ 152,347	$ 150,202	$ 7,050
Liabilities				
Due to other governments	$ 4,905	$ 152,347	$ 150,202	$ 7,050
STATE DEED TAX				
Assets				
Cash and pooled investments	$ 43,055	$ 191,281	$ 227,829	$ 6,507
Liabilities				
Due to other governments	$ 43,055	$ 191,281	$ 227,829	$ 6,507

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, 2016

	Balance January 1	Additions	Deductions	Balance December 31
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	$ 28,416	$ 20,821,347	$ 20,126,442	$ 723,321
Due from other governments	178,368	-	178,368	-
Total Assets	**$ 206,784**	**$ 20,821,347**	**$ 20,304,810**	**$ 723,321**
Liabilities				
Due to other governments	**$ 206,784**	**$ 20,821,347**	**$ 20,304,810**	**$ 723,321**
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	$ 107,176	$ 21,341,319	$ 20,679,980	$ 768,515
Due from other governments	178,368	-	178,368	-
Total Assets	**$ 285,544**	**$ 21,341,319**	**$ 20,858,348**	**$ 768,515**
Liabilities				
Due to other governments	**$ 285,544**	**$ 21,341,319**	**$ 20,858,348**	**$ 768,515**

SCHEDULE

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EXHIBIT D-1

SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2016

Appropriations and Shared Revenue		
State		
Highway users tax	$	2,145,532
County program aid		232,373
PERA rate reimbursement		12,955
Disparity reduction aid		43,251
Police aid		70,285
Aquatic invasive species prevention aid		59,986
SCORE		68,710
Enhanced 911		91,469
Market value credit		282,523
Total appropriations and shared revenue	**$**	**3,007,084**
Reimbursement for Services		
State		
Minnesota Department of Human Services	**$**	**16,879**
Payments		
Local		
Highway	$	130,471
Payments in lieu of taxes		249,747
Total local	**$**	**380,218**
Grants		
State		
Minnesota Department/Board of		
Corrections	$	23,667
Natural Resources		106,711
Veterans Affairs		7,500
Water and Soil Resources		58,136
Total state	**$**	**196,014**
Federal		
Department of		
Transportation	$	82,619
Homeland Security		38,159
Total federal	**$**	**120,778**
Total state and federal grants	**$**	**316,792**
Total Intergovernmental Revenue	**$**	**3,720,973**

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Management and Compliance Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

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

Independent Auditor's Report

Board of County Commissioners
Cottonwood County
Windom, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Cottonwood County, Minnesota, as of and for the year ended December 31, 2016, 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 24, 2017.

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 first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 2016-001 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 Counties*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the County's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the County has no tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that Cottonwood County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties*, except as described in the Schedule of Findings and Recommendations as items 2016-002 and 2016-003. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Other Matters

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

Cottonwood County's Response to Findings

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

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

October 24, 2017

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COTTONWOOD COUNTY
WINDOM, MINNESOTA

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2016

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

INTERNAL CONTROL

ITEM ARISING THIS YEAR

Finding Number 2016-001

Taxes and Penalties Agency Fund Reconciliation

Criteria: Reconciliations are control activities designed to provide reasonable assurance that errors will be detected in a timely manner. Reconciliations should be performed to ascertain that the balances are identifiable and also to identify any differences between the records and balances, including investigating the reason for any noted differences and resolving them in a timely manner.

Condition: The County did not perform a reconciliation of the year-end cash balance in the Taxes and Penalties Agency Fund and could not identify differences between the records and the year-end cash balance at the time of the auditor's review.

Context: During the audit of the Taxes and Penalties Agency Fund the following issues were noted:

- an underpayment of $186,878 due to the Minnesota Department of Revenue for collected state general property taxes; and

- an unidentified balance at December 31, 2016.

Effect: When accounting records are not reconciled on a regular basis, there is an increased risk that errors or irregularities will not be detected in a timely manner. Unidentified balances at year-end are an indication that amounts distributed to the County or another district may have been inaccurate.

Cause: The County indicated that they have not been able to reconcile the Taxes and Penalties Agency Fund due to time constraints and limited personnel.

Recommendation: We recommend the County make a payment to the Minnesota Department of Revenue for the underpayment of state general property taxes. We also recommend the County investigate the unidentified December 31, 2016, balance in the Taxes and Penalties Agency Fund and make corrections as necessary. And, throughout each year, reconciliations should be performed to ascertain that the cash balance of the Taxes and Penalties Agency Fund is identifiable and any errors or inaccurate balances discovered should be investigated and corrected in a timely manner.

View of Responsible Official: Acknowledged

II. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEMS ARISING THIS YEAR

Finding Number 2016-002

Contract Compliance - Signed Contract

Criteria: According to Minn. Stat. § 375.21, contracts estimated to exceed $100,000 should be duly executed in writing. To be executed, contracts must be signed by both parties.

Condition: During our review of contracts, we noted that the written contract for a highway project was not signed by both parties.

Context: The contract was awarded by the County Board during the regular Board meeting on July 5, 2016. The written contract on file at the time of our testing was signed by the contractor but not by County representatives. A contract has since been signed by both parties.

Effect: Noncompliance with Minn. Stat. § 375.21. By not being in compliance with this requirement of Minn. Stat. § 375.21, the County may have been exposed to unnecessary risks had complications occurred with the project.

Cause: The County indicated that they believed that, at one point, they had a copy of the contract signed by both parties, but that contract has been misplaced and could not be found.

Recommendation: We recommend that the County ensure that all written contracts are signed by both parties.

View of Responsible Official: Acknowledged

Finding Number 2016-003

Contract Compliance - Alternative Dissemination of Bids

Criteria: According to Minn. Stat. § 331A.03, a county may disseminate solicitations of bids on its website as an alternative to advertising in a qualified legal newspaper provided that the county, among other requirements, "simultaneously publishes, either as part of the minutes of a regular meeting of the governing body or in a separate notice published in the official newspaper, a description of all solicitations or requests so disseminated, along with the means by which the dissemination occurred."

Condition: During our review of contracts, we noted that the County Board had approved use of this alternative method for transportation-related construction and maintenance projects. During the year, the County website had been used as an alternative means of advertising for such projects, however, notice of these advertisements was not simultaneously published as part of the minutes or in the official newspaper.

Context: Although notice of the advertisement for bids was not published, we noted that multiple contractors had submitted bids for the projects we reviewed.

Effect: The County's method of advertising for bids on highway projects did not meet the requirements of Minnesota statutes.

Cause: The County indicated that there was a misunderstanding of what was required for using the alternative method for disseminating bids.

Recommendation: If choosing to use an alternative means of advertising for bids, we recommend that the County follow all related requirements for using that alternative.

View of Responsible Official: Acknowledged

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 1996-006

County Ditch Deficit Fund Balances

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

Condition: The County had individual ditch systems with individual deficit fund balances at December 31, 2016.

Context: As of December 31, 2016, 10 of the 87 individual ditch systems had deficit fund balances, totaling $181,036, which was an increase in the deficit from the $154,453 reported in the prior year.

Taking into consideration assessments that have been approved for collection in future years and long-term debt obligations, both of which are not factored into the reported ditch system fund balance, the total deficit fund balances of the ditch systems increases to $269,265.

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

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

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

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

View of Responsible Official: Acknowledged

III. PREVIOUSLY REPORTED ITEM RESOLVED

2006-006 Audit Adjustments

REPRESENTATION OF COTTONWOOD COUNTY
WINDOM, MINNESOTA

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2016

Finding Number: 2016-001
Finding Title: Taxes and Penalties Agency Fund Reconciliation

Name of Contact Person Responsible for Corrective Action:

Jan Johnson, County Auditor/Treasurer

Corrective Action Planned:

The County will reconcile the tax and penalties agency fund and investigate any differences.

Anticipated Completion Date:

December 31, 2017

Finding Number: 2016-002
Finding Title: Contract Compliance - Signed Contract

Name of Contact Person Responsible for Corrective Action:

Nick Klisch, Cottonwood County Public Works Director

Corrective Action Planned:

The County will verify that the signed contracts are maintained in the contract files.

Anticipated Completion Date:

Immediately.

Finding Number: 2016-003
Finding Title: Contract Compliance - Alternative Dissemination of Bids

Name of Contact Person Responsible for Corrective Action:

Kelly Thongvivong, Cottonwood County Coordinator

Corrective Action Planned:

The County will follow the requirements for the alternative bid process.

Anticipated Completion Date:

Immediately.

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

Name of Contact Person Responsible for Corrective Action:

Tom Appel, Cottonwood County Ditch Authority Chairperson

Corrective Action Planned:

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

Anticipated Completion Date:

Three years.

REPRESENTATION OF COTTONWOOD COUNTY
WINDOM, MINNESOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2016

Finding Number: 1996-006
Finding Title: Individual Ditch System Deficits

Summary of Condition: The County had individual ditch systems with deficit cash balances and deficit fund balances at December 31, 2015.

Summary of Corrective Action Previously Reported: 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.

Status: Partially Corrected. At December 31, 2016, there were no individual ditch systems with negative cash balances. The County will continue to monitor the negative fund balances.

Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

Finding Number: 2006-006
Finding Title: Audit Adjustments

Summary of Condition: During the 2015 audit, audit adjustments were proposed that resulted in changes to Cottonwood County's financial statements.

Summary of Corrective Action Previously Reported: The County will comply with recommendations to review internal controls 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 will include review of the balances and supporting documentation by a qualified individual to identify potential misstatements.

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