

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

COTTONWOOD COUNTY
WINDOM, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - 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 Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@state.mn.us
www.auditor.state.mn.us

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the State Auditor's web site: www.auditor.state.mn.us.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

For the Year Ended December 31, 2004



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

This page was left blank intentionally.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

TABLE OF CONTENTS

	Reference	Page
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		4
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Assets	Exhibit 1	15
Statement of Activities	Exhibit 2	16
Fund Financial Statements		
Governmental Funds		
Balance Sheet	Exhibit 3	18
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets--Governmental Activities	Exhibit 4	22
Statement of Revenues, Expenditures, and Changes in Fund Balances	Exhibit 5	23
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	Exhibit 6	25
Proprietary Fund		
Statement of Fund Net Assets	Exhibit 7	26
Statement of Revenues, Expenses, and Changes in Fund Net Assets	Exhibit 8	27
Statement of Cash Flows	Exhibit 9	28
Fiduciary Funds		
Statement of Fiduciary Net Assets	Exhibit 10	30
Statement of Changes in Fiduciary Net Assets	Exhibit 11	31
Notes to the Financial Statements		32

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

TABLE OF CONTENTS

	Reference	Page
Financial Section (Continued)		
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	Schedule 1	65
Road and Bridge Fund	Schedule 2	68
Family Services Fund	Schedule 3	69
Ditch Fund	Schedule 4	70
Building Fund	Schedule 5	71
Notes to Required Supplementary Information		72
 Supplementary Information		
Budgetary Comparison Schedule - Debt Service Fund	Schedule 6	74
Combining Statement of Changes in Assets and Liabilities - Agency Funds	Statement 1	75
Schedule of Intergovernmental Revenue	Schedule 7	77
 Management and Compliance Section		
Schedule of Findings and Questioned Costs	Schedule 8	78
 Other Required Reports		
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		85
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133		87
Schedule of Expenditures of Federal Awards	Schedule 9	89

This page was left blank intentionally.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

ORGANIZATION
2004

Office	Name	Term Expires
Commissioners		
1st District	Gary Sorenson ¹	January 2005
2nd District	Ron Kuecker	January 2007
3rd District	Chuck Severson ²	January 2005
4th District	Norm Holmen	January 2007
5th District	John Oeltjenbruns	January 2007
Officials		
Elected		
Attorney	L. Douglas Storey	January 2007
Auditor/Treasurer	Jan Johnson	January 2007
County Recorder	Mary Ann Anderson	January 2007
Sheriff	Robert Haken	January 2007
Appointed		
Assessor	Gale Bondhus	Indefinite
Highway Engineer	Gerald Engstrom	Indefinite
Veterans Service Officer	Peter Brand	Indefinite
Environmental Officer	Mike Hanson	Indefinite
Emergency Services Director	Michael Kirchmeier	Indefinite
Family Service Director	Jeffrey Minor	Indefinite

¹Chair 2004

²Chair 2005

This page was left blank intentionally.

This page was left blank intentionally.



STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Cottonwood County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Cottonwood County as of and for the year ended December 31, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic 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, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison schedules 1 through 5 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of Cottonwood County. The statement and schedules listed as supplementary information in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of Cottonwood County. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 5, 2005, 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, 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* and should be considered in assessing the results of our audit.

/s/Pat Anderson

/s/Greg Hierlinger

PATRICIA ANDERSON
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: July 5, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

This page was left blank intentionally.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2004
(Unaudited)**

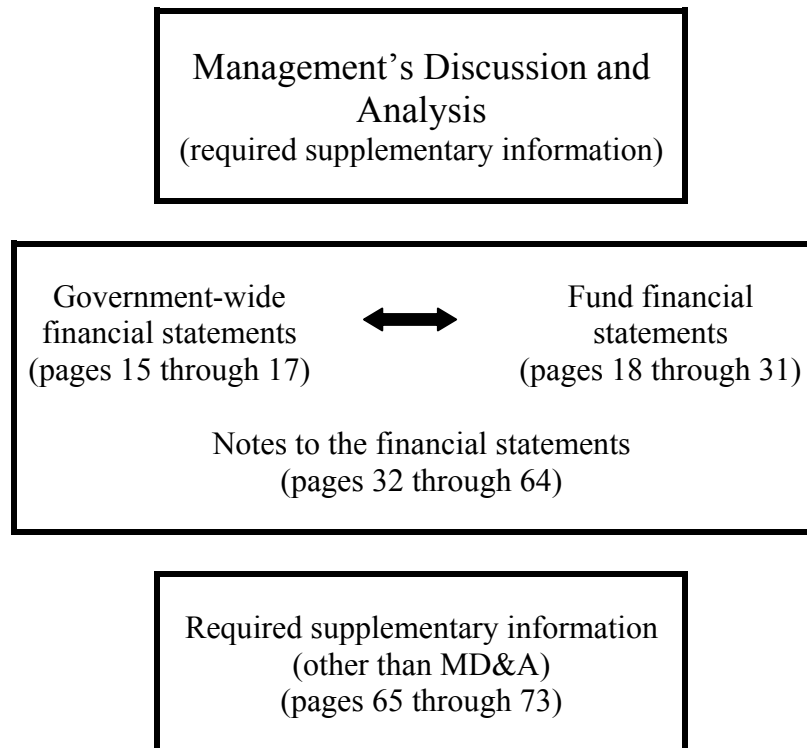
Cottonwood County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2004. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements (beginning on page 15).

FINANCIAL HIGHLIGHTS

- Governmental activities' net assets are \$42,584,818, of which \$35,264,428 is invested in capital assets, net of related debt, and \$3,397,132 of the governmental activities net assets are restricted for specific uses.
- Business-type activities have total assets of \$2,596,197. Capital assets represent \$329,287 of business-type net assets of \$999,879.
- Cottonwood County's net assets increased by \$3,709,308 for the year ended December 31, 2004. Of the increase, \$3,789,413 was in the governmental activities' net assets and \$80,105 represented the decrease in business-type activities' net assets.
- The net cost of governmental activities was \$2,603,187 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$6,392,600.
- Governmental funds' fund balances increased by \$865,588. This increase was due mainly to the increased collection of tax revenue and the sale of a refunding bond.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis (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 certain budgetary comparison schedules are required to accompany the basic financial statements and, therefore, are included as required supplementary information. The following chart demonstrates how the different pieces are interrelated.



There are two government-wide financial statements. The Statement of Net Assets and the Statement of Activities (on pages 15 through 16) provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements start on page 18. For governmental activities, these statements tell how these 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 Assets and the Statement of Activities

Our analysis of the County as a whole begins on page 15. The Statement of Net Assets and the Statement of Activities report information about the County as a whole and about its activities in a way that helps the reader determine whether the County's financial condition has improved or declined as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the County's net assets and changes in net assets. You can think of the County's net assets--the difference between assets and liabilities--as one way to measure the County's financial health, or financial position. Over time, increases or decreases in the County's net assets 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 Assets 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, human services, health, culture and recreation, conservation of natural resources, and economic development. Property taxes and state and federal grants finance most of these activities.
- Business-type activities--The County charges a fee to customers to help it cover all or most of the cost of services it provides. The County's solid waste landfill activities are reported here.

Fund Financial Statements

Our analysis of the County's major funds begins on page 18. The fund financial statements begin on page 18 and 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 Assets 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 Assets and the Statement of Activities. In fact, the County's enterprise fund presents the same information as the business-type activities in the government-wide statements but provides more detail and additional information, such as cash flows.

Reporting the County's Fiduciary Responsibilities

The County is the trustee, or fiduciary, over assets that can be used only for the trust beneficiaries based on the trust arrangement. All of the County's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 30 and 31. 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.

THE COUNTY AS A WHOLE

The County's combined net assets are \$43,584,697. Looking at the net assets and net expenses of governmental and business-type activities separately, however, two different stories emerge. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the County's governmental and business-type activities.

	Table 1 Net Assets		
	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 12,902,760	\$ 2,260,831	\$ 15,163,591
Capital assets	35,639,428	329,287	35,968,715
Total Assets	\$ 48,542,188	\$ 2,590,118	\$ 51,132,306
Long-term debt outstanding	\$ (5,240,725)	\$ (1,554,516)	\$ (6,795,241)
Other liabilities	(716,645)	(35,723)	(752,368)
Total Liabilities	\$ (5,957,370)	\$ (1,590,239)	\$ (7,547,609)
Net Assets			
Invested in capital assets, net of debt	\$ 35,264,428	\$ 329,287	\$ 35,593,715
Restricted	3,397,132	1,445,166	4,842,298
Unrestricted	3,923,258	(774,574)	3,148,684
Total Net Assets	\$ 42,584,818	\$ 999,879	\$ 43,584,697

Net assets of the County governmental activities were \$42,584,818. Unrestricted net assets--the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements--was \$3,923,258 at the end of the year. The net assets of business-type activities were \$999,879.

Table 2
Changes in Net Assets
(in Thousands)

	Governmental Activities 2004	Business-Type Activities 2004	Total 2004
Revenues			
Program revenues			
Fees, fines, and charges	\$ 1,099	\$ 433	\$ 1,532
Operating grants and contributions	4,442	10	4,452
Capital grants and contributions	2,377	-	2,377
General revenues			
Property taxes	4,610	89	4,699
Other taxes	193	-	193
Grants, gifts, and miscellaneous	1,603	-	1,603
Total Revenues	\$ 14,324	\$ 532	\$ 14,856
Expenditures			
General government	\$ 1,610	\$ -	\$ 1,610
Public safety	1,495	-	1,495
Highways and streets	1,736	-	1,736
Sanitation	211	-	211
Human services	4,051	-	4,051
Health	118	-	118
Culture and recreation	306	-	306
Conservation of natural resources	813	-	813
Economic development	4	-	4
Interest	177	-	177
Landfill	-	625	625
Total Expenditures	\$ 10,521	\$ 625	\$ 11,146
Increase (Decrease) Before Transfers	\$ 3,803	\$ (93)	\$ 3,710
Transfers	(13)	13	-
Increase (Decrease) in Net Assets	\$ 3,790	\$ (80)	\$ 3,710
Net Assets - Beginning January 1	38,795	1,080	39,875
Net Assets - Ending December 31	<u>\$ 42,585</u>	<u>\$ 1,000</u>	<u>\$ 43,585</u>

The County's activities increased net assets by 9.3 percent (\$43,584,697 for 2004 compared to \$39,875,389 for 2003).

TOTAL COUNTY REVENUE

Governmental Activities

Revenues for the County's governmental activities were \$14,323,834, while total expenses were \$10,521,234 and transfers out were \$13,187. This reflects a \$3,789,413 increase in net assets for the year ended December 31, 2004.

Business-Type Activities

Revenues of the County's business-type activities (see Table 2) were \$531,825, transfers in were \$13,187, and expenses were \$625,117. Increased expenses this year were caused by the engineering costs incurred in the construction of a new landfill cell.

GOVERNMENTAL ACTIVITIES EXPENSES

The cost of all governmental activities this year was \$10,521,234. However, as shown in the Statement of Activities on page 16, the amount that our taxpayers ultimately financed for these activities through County taxes was only \$2,603,187 because some of the cost was paid by those who directly benefited from the programs (\$1,098,760) or by other governments and organizations that subsidized certain programs with grants and contributions (\$6,819,287).

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)

	Total Cost of Services 2004	Net Cost of Services 2004
	<hr/>	<hr/>
Human services	\$ 4,051	\$ 1,742
Highways and streets	1,736	(2,407)
General government	1,610	1,284
Public safety	1,495	1,280
Conservation of natural resources	813	188
All others	816	516
	<hr/>	<hr/>
Totals	\$ 10,521	\$ 2,603
	<hr/>	<hr/>

THE COUNTY'S FUNDS

As the County completed the year, its governmental funds (as presented in the Balance Sheet on pages 18 through 21) reported a combined fund balance of \$8,607,913, which is above last year's total of \$7,750,879. The governmental funds change in fund balance (an increase of \$857,034 for 2004) represents an 11 percent increase in governmental fund balances. Most of the governmental funds' increase is due to increased tax revenue and the sale of a refunding bond.

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.

Even with these adjustments, the actual charges to appropriations (expenditures) were \$259,210 above the final budget amounts. The reason for significant variances of actual expenditures from final budget is expenditures made from departments without budgeted expenses.

On the other hand, resources available for appropriation were also \$564,824 above the final budgeted amount. Restoration of certain state appropriations helped to offset reductions in anticipated investment earnings.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2004, the County had \$35,968,715 invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment. (See Table 4.) This amount represents a net increase (including additions and deductions) of \$4,030,872, or 12.6 percent, over last year.

Table 4
Changes in Capital Assets During 2004

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 311,551	\$ -	\$ -	\$ 311,551
Right of way	688,378	9,035	-	697,413
Construction in progress	1,242,218	2,084,789	1,242,218	2,084,789
 Total capital assets not depreciated	 \$ 2,242,147	 \$ 2,093,824	 \$ 1,242,218	 \$ 3,093,753
Capital assets depreciated				
Buildings	\$ 4,101,623	\$ 166,988	\$ -	\$ 4,268,611
Machinery and equipment	3,663,570	572,806	(345,813)	3,890,563
Infrastructure	32,484,629	3,555,934	-	36,040,563
 Total capital assets depreciated	 \$ 40,249,822	 \$ 4,295,728	 \$ (345,813)	 \$ 44,199,737
Less: accumulated depreciation for				
Buildings	\$ 1,356,442	\$ 102,075	\$ -	\$ 1,458,517
Machinery and equipment	2,206,160	275,266	(345,813)	2,135,613
Infrastructure	7,351,638	708,294	-	8,059,932
 Total accumulated depreciation	 \$ 10,914,240	 \$ 1,085,635	 \$ (345,813)	 \$ 11,654,062
 Total capital assets depreciated, net	 \$ 29,335,582	 \$ 3,210,093	 \$ -	 \$ 32,545,675
 Governmental Activities Capital Assets, Net	 \$ 31,577,729	 \$ 5,303,917	 \$ 1,242,218	 \$ 35,639,428

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
Machinery and equipment	425,095	-	-	425,095
Total capital assets depreciated	\$ 448,795	\$ -	\$ -	\$ 448,795
Less: accumulated depreciation for				
Buildings	\$ 15,076	\$ 790	\$ -	\$ 15,866
Machinery and equipment	237,487	30,037	-	267,524
Total accumulated depreciation	\$ 252,563	\$ 30,827	\$ -	\$ 283,390
Total capital assets depreciated, net	\$ 196,232	\$ (30,827)	\$ -	\$ 165,405
Business-Type Activities Capital Assets, Net	\$ 360,114	\$ (30,827)	\$ -	\$ 329,287

The capital asset events this year were primarily the addition of roads and bridges (infrastructure) and the purchase of highway equipment.

The County's fiscal year 2005 capital budget calls for it to spend \$1,840,000 on highway and bridge construction and \$275,000 on equipment purchases, all to be financed with resources on hand in existing County funds. For the other projects, it plans to use resources on hand in the County's Road and Bridge Fund.

Debt

At the end of the current fiscal year, the County had total outstanding debt of \$6,795,241, versus \$6,586,438 last year--an increase of 3.17 percent--as shown in Table 5.

Table 5
Changes in Outstanding Debt During 2004

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 550,000	\$ -	\$ 175,000	\$ 375,000	\$ 185,000
Tax increment	705,000	385,000	160,000	930,000	545,000
Special assessment debt with governmental commitment	2,430,000	-	150,000	2,280,000	150,000
Less: unamortized discount	-	(1,540)	-	(1,540)	(513)
Total bonds payable	\$ 3,685,000	\$ 383,460	\$ 485,000	\$ 3,583,460	\$ 879,487
Loans payable	1,094,513	192,886	107,949	1,179,450	116,435
Compensated absences	466,286	11,529	-	477,815	53,420
Governmental Activity Long-Term Liabilities	<u>\$ 5,245,799</u>	<u>\$ 587,875</u>	<u>\$ 592,949</u>	<u>\$ 5,240,725</u>	<u>\$ 1,049,342</u>

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 305,000	\$ 365,000	\$ 150,000	\$ 520,000	\$ 145,000
Less: unamortized discount	(2,230)	(6,205)	(2,356)	(6,079)	(1,241)
Total bonds payable	\$ 302,770	\$ 358,795	\$ 147,644	\$ 513,921	\$ 143,759
Estimated liability for landfill closure and postclosure care	1,026,367	3,025	-	1,029,392	-
Compensated absences	11,502	-	299	11,203	-
Business-Type Activity Long-Term Liabilities	<u>\$ 1,340,639</u>	<u>\$ 361,820</u>	<u>\$ 147,943</u>	<u>\$ 1,554,516</u>	<u>\$ 143,759</u>

New debt resulted mainly from issuance of bonds for a new landfill cell project and the issuance of refunding bonds on existing debt.

The County's general obligation bond rating is currently an A3. This rating is assigned by national rating agencies. The state limits the amount of net debt that counties can issue to two percent of the market value of all taxable property (\$966,416,200) in the county. The County's outstanding net debt (\$6,795,241) is significantly below this state-imposed limit.

The County does not purchase commercial insurance for employee health and dental coverage and has claims and judgments of \$98,353 outstanding at year-end, compared with \$137,456 last year. Other obligations include accrued vacation pay and sick leave payable.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for the business-type activities.

- Cottonwood County is anticipating restoration of state aids to local governments. The County will be able to maintain a stable service environment if no further state reductions are implemented.
- County General Fund expenditures for 2005 are budgeted to increase 12 percent from 2004.
- Property taxes levied have increased three percent for 2005.

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's Auditor/Treasurer Jan Johnson, Cottonwood County Courthouse, 900 - 3rd Avenue, Windom, Minnesota 56101.

This page was left blank intentionally.

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

This page was left blank intentionally.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and pooled investments	\$ 8,885,259	\$ 696,875	\$ 9,582,134
Receivables - net	3,834,278	108,676	3,942,954
Internal balances	(10,114)	10,114	-
Inventories	180,237	-	180,237
Prepaid items	3,770	-	3,770
Restricted assets			
Cash and pooled investments	-	1,444,080	1,444,080
Taxes receivable - prior	-	1,086	1,086
Deferred charges	9,330	-	9,330
Capital assets			
Non-depreciable capital assets	3,093,753	163,882	3,257,635
Depreciable capital assets - net of accumulated depreciation	32,545,675	165,405	32,711,080
Total Assets	\$ 48,542,188	\$ 2,590,118	\$ 51,132,306
<u>Liabilities</u>			
Accounts payable and other current liabilities	\$ 608,478	\$ 35,723	\$ 644,201
Accrued interest payable	71,900	-	71,900
Unearned revenue	36,267	-	36,267
Long-term liabilities			
Due within one year	1,049,855	143,759	1,193,614
Due in more than one year	4,190,870	1,410,757	5,601,627
Total Liabilities	\$ 5,957,370	\$ 1,590,239	\$ 7,547,609
<u>Net Assets</u>			
Invested in capital assets - net of related debt	\$ 35,264,428	\$ 329,287	\$ 35,593,715
Restricted for			
Public safety	54,832	-	54,832
Highways and streets	1,519,572	-	1,519,572
Capital projects	-	104,507	104,507
Debt service	1,793,061	1,991	1,795,052
Postclosure	-	1,338,668	1,338,668
Other purposes	29,667	-	29,667
Unrestricted	3,923,258	(774,574)	3,148,684
Total Net Assets	\$ 42,584,818	\$ 999,879	\$ 43,584,697

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Governmental activities		
General government	\$ 1,610,217	\$ 236,648
Public safety	1,495,493	82,992
Highways and streets	1,736,207	97,122
Sanitation	210,487	184,777
Human services	4,050,923	207,093
Health	117,769	-
Culture and recreation	306,070	29,164
Conservation of natural resources	812,841	257,316
Economic development	4,275	3,648
Interest	176,357	-
Administrative charges	595	-
	\$ 10,521,234	\$ 1,098,760
Business-type activities		
Landfill	625,117	432,932
	\$ 11,146,351	\$ 1,531,692

General Revenues

- Property taxes
- Mortgage registry and deed tax
- Payments in lieu of tax
- Grants and contributions not restricted to specific programs
- Gifts and contributions
- Investment income
- Miscellaneous

Transfers

Total general revenues and transfers

Change in net assets

Net Assets - Beginning, as restated (Note 1.E.)

Net Assets - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
\$ 79,484	\$ 10,525	\$ (1,283,560)	\$ -	\$ (1,283,560)
101,490	31,181	(1,279,830)	-	(1,279,830)
1,710,183	2,335,560	2,406,658	-	2,406,658
-	-	(25,710)	-	(25,710)
2,102,183	-	(1,741,647)	-	(1,741,647)
-	-	(117,769)	-	(117,769)
80,718	-	(196,188)	-	(196,188)
367,963	-	(187,562)	-	(187,562)
-	-	(627)	-	(627)
-	-	(176,357)	-	(176,357)
-	-	(595)	-	(595)
\$ 4,442,021	\$ 2,377,266	\$ (2,603,187)	\$ -	\$ (2,603,187)
10,114	-	-	(182,071)	(182,071)
\$ 4,452,135	\$ 2,377,266	\$ (2,603,187)	\$ (182,071)	\$ (2,785,258)
		\$ 4,610,154	\$ 88,779	\$ 4,698,933
		5,145	-	5,145
		187,424	-	187,424
		1,222,608	-	1,222,608
		64,413	-	64,413
		162,414	-	162,414
		153,629	-	153,629
		(13,187)	13,187	-
		\$ 6,392,600	\$ 101,966	\$ 6,494,566
		\$ 3,789,413	\$ (80,105)	\$ 3,709,308
		38,795,405	1,079,984	39,875,389
		\$ 42,584,818	\$ 999,879	\$ 43,584,697

This page was left blank intentionally.

FUND FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENTAL FUNDS

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 5,382,511	\$ 1,276,502
Petty cash and change funds	3,000	-
Undistributed cash in agency funds	28,435	8,355
Departmental cash	12,574	-
Taxes receivable		
Prior	24,867	10,493
Special assessments receivable		
Prior	9,551	-
Noncurrent	-	-
Accounts receivable	19	591
Accrued interest receivable	17,302	-
Loans receivable	984,554	-
Due from other funds	242	2,779
Due from other governments	31,366	1,001,763
Inventories	-	180,237
Advances to other funds	54,087	-
Prepaid items	3,770	-
	\$ 6,552,278	\$ 2,480,720
Total Assets	\$ 6,552,278	\$ 2,480,720

EXHIBIT 3

Family Services	Ditch	Building	Debt Service	Total Governmental Funds
\$ 993,769	\$ 768,316	\$ 95,489	\$ 298,957	\$ 8,815,544
-	-	-	-	3,000
14,332	728	454	1,837	54,141
-	-	-	-	12,574
17,729	-	388	2,204	55,681
-	85	-	-	9,636
-	1,492,267	-	-	1,492,267
39,986	-	-	-	40,596
-	-	-	-	17,302
-	-	-	-	984,554
-	-	5,057	-	8,078
201,113	-	-	-	1,234,242
-	-	-	-	180,237
-	-	-	-	54,087
-	-	-	-	3,770
\$ 1,266,929	\$ 2,261,396	\$ 101,388	\$ 302,998	\$ 12,965,709

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 145,516	\$ 18,802
Salaries payable	19,157	41,624
Contracts payable	-	125,318
Due to other funds	17,894	242
Due to other governments	1,215,390	1,043
Deferred revenue - unavailable	78,138	870,511
Deferred revenue - unearned	36,267	-
Advance from other funds	-	-
	\$ 1,512,362	\$ 1,057,540
Fund Balances		
Reserved for		
Inventories	\$ -	\$ 180,237
Advances to other funds	54,087	-
Sheriff's contingency	1,269	-
Debt service	-	-
Enhanced 911	53,563	-
Loans receivable	21,567	-
Prepaid items	3,770	-
Missing heirs	3,425	-
Law library	26,242	-
Highway allotments	-	800,503
Unreserved		
Designated for future expenditures	152,951	-
Designated for medical insurance	16,216	-
Undesignated	4,706,826	442,440
	\$ 5,039,916	\$ 1,423,180
Total Liabilities and Fund Balances	\$ 6,552,278	\$ 2,480,720

EXHIBIT 3
(Continued)

<u>Family Services</u>	<u>Ditch</u>	<u>Building</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
\$ 145,413	\$ 2,146	\$ -	\$ -	\$ 311,877
10,655	-	-	-	71,436
-	-	-	-	125,318
-	56	-	-	18,192
62,746	118	-	-	1,279,297
17,729	1,492,352	388	2,204	2,461,322
-	-	-	-	36,267
-	54,087	-	-	54,087
\$ 236,543	\$ 1,548,759	\$ 388	\$ 2,204	\$ 4,357,796
\$ -	\$ -	\$ -	\$ -	\$ 180,237
-	-	-	-	54,087
-	-	-	-	1,269
-	-	-	300,794	300,794
-	-	-	-	53,563
-	-	-	-	21,567
-	-	-	-	3,770
-	-	-	-	3,425
-	-	-	-	26,242
-	-	-	-	800,503
-	-	-	-	152,951
-	-	-	-	16,216
1,030,386	712,637	101,000	-	6,993,289
\$ 1,030,386	\$ 712,637	\$ 101,000	\$ 300,794	\$ 8,607,913
\$ 1,266,929	\$ 2,261,396	\$ 101,388	\$ 302,998	\$ 12,965,709

This page was left blank intentionally.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004**

Fund balances - total governmental funds (Exhibit 3)	\$	8,607,913
Amounts reported for governmental activities in the statement of net assets 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.		35,639,428
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		2,461,322
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	\$ (3,585,000)	
Compensated absences	(477,815)	
Accrued interest payable	(71,900)	
Unamortized discount on general obligation refunding bonds	1,540	
Deferred debt issuance charges	9,330	
	(4,123,845)	(4,123,845)
Net assets of governmental activities (Exhibit 1)	\$	<u>42,584,818</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	General	Road and Bridge
Revenues		
Taxes	\$ 2,398,818	\$ 802,562
Special assessments	181,273	-
Licenses and permits	16,513	-
Intergovernmental	1,656,213	5,270,059
Charges for services	297,298	75,224
Interest on investments	162,414	-
Miscellaneous	240,392	31,704
	\$ 4,952,921	\$ 6,179,549
Expenditures		
Current		
General government	\$ 1,518,187	\$ -
Public safety	1,454,479	-
Highways and streets	-	5,581,952
Sanitation	203,962	-
Human services	-	-
Health	7,925	-
Culture and recreation	269,793	-
Conservation of natural resources	693,256	-
Economic development	4,275	-
Intergovernmental	109,844	263,091
Capital outlay	160,330	-
Debt service		
Principal retirement	160,000	-
Interest	49,745	-
Bond issuance costs	9,330	-
Administrative (fiscal) charges	-	-
	\$ 4,641,126	\$ 5,845,043
Excess of Revenues Over (Under) Expenditures	\$ 311,795	\$ 334,506
Other Financing Sources (Uses)		
Transfers in	\$ 15,000	\$ 1,637
Transfers out	(176,171)	-
Proceeds from sale of refunding bonds	385,000	-
Discount on bonds issued	(1,540)	-
	\$ 222,289	\$ 1,637
Net Change in Fund Balances	\$ 534,084	\$ 336,143
Fund Balance - January 1	4,505,832	1,095,591
Increase (decrease) in reserved for inventories	-	(8,554)
Fund Balance - December 31	\$ 5,039,916	\$ 1,423,180

EXHIBIT 5

Family Services	Ditch	Building	Debt Service	Total Governmental Funds
\$ 1,378,070	\$ -	\$ 44,392	\$ 175,877	\$ 4,799,719
-	277,757	-	-	459,030
-	-	-	-	16,513
2,303,928	-	5,057	-	9,235,257
15,000	-	-	-	387,522
-	-	-	-	162,414
192,093	1,455	37,809	-	503,453
\$ 3,889,091	\$ 279,212	\$ 87,258	\$ 175,877	\$ 15,563,908
\$ -	\$ -	\$ 28,292	\$ -	\$ 1,546,479
-	-	-	-	1,454,479
-	-	-	-	5,581,952
-	-	-	-	203,962
3,993,993	-	-	-	3,993,993
-	-	-	-	7,925
-	-	-	-	269,793
-	96,519	-	-	789,775
-	-	-	-	4,275
-	-	-	-	372,935
-	-	-	-	160,330
-	150,000	-	175,000	485,000
-	115,260	-	22,765	187,770
-	-	-	-	9,330
-	470	-	125	595
\$ 3,993,993	\$ 362,249	\$ 28,292	\$ 197,890	\$ 15,068,593
\$ (104,902)	\$ (83,037)	\$ 58,966	\$ (22,013)	\$ 495,315
\$ 139,139	\$ 3,783	\$ -	\$ 3,425	\$ 162,984
-	-	-	-	(176,171)
-	-	-	-	385,000
-	-	-	-	(1,540)
\$ 139,139	\$ 3,783	\$ -	\$ 3,425	\$ 370,273
\$ 34,237	\$ (79,254)	\$ 58,966	\$ (18,588)	\$ 865,588
996,149	791,891	42,034	319,382	7,750,879
-	-	-	-	(8,554)
\$ 1,030,386	\$ 712,637	\$ 101,000	\$ 300,794	\$ 8,607,913

**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, 2004**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 865,588

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 expenditures are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues between the fund statements and the statement of activities is the increase (decrease) in revenues deferred as unavailable.

Deferred revenue - December 31	\$ 2,461,322	
Deferred revenue - January 1	(3,701,396)	(1,240,074)

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

Expenditures for general capital assets, infrastructure	\$ 5,147,334	
Current year depreciation	(1,085,635)	4,061,699

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

The net proceeds of new debt are:		
Bonds issued	\$ (385,000)	
Discount on bonds issued	1,540	
Issuance costs	9,330	(374,130)

Repayment of debt principal - general obligation bonds		485,000
--	--	---------

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	\$ 11,413	
Change in compensated absences	(11,529)	
Change in inventories	(8,554)	(8,670)

Change in net assets of governmental activities (Exhibit 2) \$ 3,789,413

PROPRIETARY FUND

This page was left blank intentionally.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FUND NET ASSETS
PROPRIETARY FUND
DECEMBER 31, 2004**

	<u>Landfill Enterprise Fund</u>
<u>Assets</u>	
Current assets	
Cash and pooled investments	\$ 696,875
Accounts receivable - net	108,676
Due from other funds	10,114
Restricted assets	
Cash and pooled investments	1,443,175
Undistributed cash in agency funds	905
Taxes receivable	
Prior	1,086
	1,086
Total current assets	\$ 2,260,831
Noncurrent assets	
Capital assets	
Nondepreciable	\$ 163,882
Depreciable - net	165,405
	329,287
Total noncurrent assets	\$ 329,287
Total Assets	\$ 2,590,118
<u>Liabilities</u>	
Current liabilities	
Accounts payable	\$ 18,963
Salaries payable	16,760
General obligation bonds payable - current	143,759
	179,482
Total current liabilities	\$ 179,482
Noncurrent liabilities	
Compensated absences payable - long-term	\$ 11,203
Estimated liability for landfill closure/postclosure	1,029,392
General obligation bonds payable - long term	370,162
	1,410,757
Total noncurrent liabilities	\$ 1,410,757
Total Liabilities	\$ 1,590,239
<u>Net Assets</u>	
Invested in capital assets	\$ 329,287
Restricted for postclosure	1,338,668
Restricted for debt service	1,991
Restricted for capital projects	104,507
Unrestricted	(774,574)
	999,879
Total Net Assets	\$ 999,879

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Landfill Enterprise Fund
Operating Revenues	
Charges for services	\$ 414,701
Miscellaneous	18,231
	\$ 432,932
Operating Expenses	
Personal services	\$ 93,434
Professional services	100,227
Other services and charges	378,395
Utilities	4,635
Depreciation	30,827
Landfill closure and postclosure costs	3,025
	\$ 610,543
Operating Income (Loss)	\$ (177,611)
Nonoperating Revenues (Expenses)	
Property taxes	\$ 88,779
Intergovernmental	10,114
Interest expense	(14,574)
	\$ 84,319
Income (Loss) Before Transfers	\$ (93,292)
Transfers in	28,187
Transfers out	(15,000)
	\$ (80,105)
Change in Net Assets	\$ (80,105)
Net Assets - January 1	1,079,984
Net Assets - December 31	\$ 999,879

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2004
Increase (Decrease) in Cash and Cash Equivalents**

	<u>Landfill Enterprise Fund</u>
Cash Flows from Operating Activities	
Receipts from customers and users	\$ 362,834
Payments to suppliers	(466,406)
Payments to employees	(78,024)
	(181,596)
Net cash provided by (used in) operating activities	\$ (181,596)
Cash Flows from Noncapital Financing Activities	
Property taxes	\$ 88,781
Intergovernmental	5,271
Transfers in	28,238
Transfers out	(15,441)
	106,849
Net cash provided by (used in) noncapital financing activities	\$ 106,849
Cash Flows from Capital and Related Financing Activities	
Proceeds from bonds	\$ 359,196
Principal paid on long-term debt	(150,000)
Interest paid on long-term debt	(12,218)
	196,978
Net cash provided by (used in) capital and related financing activities	\$ 196,978
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 122,231
Cash and Cash Equivalents - January 1	2,018,724
Cash and Cash Equivalents - December 31	\$ 2,140,955
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets - Exhibit 7	
Cash and pooled investments	\$ 696,875
Restricted cash and pooled investments	1,443,175
Undistributed cash in agency funds	905
	2,140,955
Total Cash and Cash Equivalents - December 31	\$ 2,140,955

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2004
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	\$ (177,611)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities	
Depreciation expense	\$ 30,827
(Increase) decrease in accounts receivable	(69,649)
(Increase) decrease in due from other funds	(8)
Increase (decrease) in accounts payable	16,446
Increase (decrease) in salaries payable	15,709
Increase (decrease) in due to other funds	(36)
Increase (decrease) in landfill closure costs	3,025
Increase (decrease) in compensated absences payable	(299)
Total adjustments	\$ (3,985)
Net cash provided by (used in) operating activities	\$ (181,596)

FIDUCIARY FUNDS

This page was left blank intentionally.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2004**

	Investment Trust	Agency
<u>Assets</u>		
Cash and pooled investments	\$ 195,195	\$ 194,990
Accrued interest receivable	1,814	-
Total Assets	\$ 197,009	\$ 194,990
<u>Liabilities</u>		
Due to other governments	-	\$ 194,990
<u>Net Assets</u>		
Net assets, held in trust for pool participant	\$ 197,009	

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 11

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Investment Trust
<u>Additions</u>	
Contributions from participant	\$ 279,808
Investment income	1,814
Total Additions	\$ 281,622
<u>Deductions</u>	
Distributions to participant	199,619
Change in Net Assets	\$ 82,003
Net Assets - January 1	115,006
Net Assets - December 31	\$ 197,009

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The County has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds and has chosen to do so. 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. As required by accounting principles generally accepted in the United States of America, these financial statements present Cottonwood County. 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 several joint ventures which are described in Note 7.C. The County also participates in a jointly-governed organization which is described in Note 7.D.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets 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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

In the government-wide statement of net assets, 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 assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. 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 activity 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.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

The County reports the following major governmental funds:

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

The Road and Bridge Special Revenue Fund is used to account for revenues and expenditures of the County Highway Department, which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

The Family Services Special Revenue Fund is used to account for economic assistance and community social services programs.

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

The Building Special Revenue Fund is used to account for the cost of constructing and maintaining County buildings. Financing is provided by taxes levied and rental income.

The Debt Service Fund is used to account for the accumulation of financial resources for, and the payment of, principal, interest, and related costs of general obligation bonds.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major enterprise fund:

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

Additionally, the County reports the following fund types:

The Investment Trust Fund is used to account for the external pooled and non-pooled investments held on behalf of external participants.

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

C. Measurement Focus and Basis of Accounting

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

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2004, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2004 were \$157,458.

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the County:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Deposits and Investments (Continued)

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

3. Receivables and Payables

Activity between funds that is 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 reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All receivables are shown net of an allowance for uncollectibles.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

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 on May 15 and the second half payment due October 15.

Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

4. Special Assessments Receivable

Special assessments receivable consist of delinquent special assessments and deferred special assessments. All special assessments receivable are shown net of allowance for uncollectibles. No provision has been made for an estimated uncollectible amount.

5. Inventories and Prepaid Items

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

6. Restricted Assets

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity (Continued)

7. Capital Assets

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

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

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

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

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity (Continued)

8. Compensated Absences

The liability for compensated absences reported in 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, proprietary, and fiduciary 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.

9. Deferred Revenue

All County funds and the government-wide financial statements defer revenue for resources that have been received but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

10. 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 type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types 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.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity (Continued)

11. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

12. Use of Estimates

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

E. Prior Period Adjustment

Net assets for governmental activities at January 1, 2004, has been restated. The restatement is as follows:

Net assets, as previously reported	\$ 42,908,699
Correction of an error in the determination of capital asset values	<u>(4,113,294)</u>
Net Assets, as Restated	<u>\$ 38,795,405</u>

2. Stewardship, Compliance, and Accountability

Deficit Fund Equity

For internal accounting purposes, individual ditch system records are maintained on a basis which shows long-term debt payable, recognizes special assessments as revenues when levied, and does not eliminate interfund transactions. Using this basis of accounting, nine of 97 drainage systems have deficit unreserved, undesignated fund balances at December 31, 2004. Although this method results in numbers not considered to be in conformity with

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Deficit Fund Equity (Continued)

generally accepted accounting principles (GAAP) for reporting, it provides necessary information by ditch for internal accounting purposes. The following is a summary of fund balances using this non-GAAP basis.

Account balances	\$	623,618
Account balance deficits		(698,732)
Total	\$	(75,114)

The Ditch Fund’s deficit will be eliminated with future special assessment levies against benefited properties. The County Ditch Fund had a fund balance of \$712,637 when reported on the modified accrual basis.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Cash and pooled investments	\$	9,582,134
Restricted assets		
Cash and pooled investments		1,444,080
Fiduciary funds		
Investment trust fund		195,195
Agency funds		194,990
Total Cash and Investments	\$	11,416,399

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the County Treasurer. At December 31, 2004, the carrying amount of the County’s deposits totaled \$11,204,825. The bank balance deposit amount was \$11,628,146. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Following is a summary of the deposits covered by insurance or collateral at December 31, 2004.

	<u>Bank Balance</u>
Covered Deposits	
Insured, or collateralized with securities held by the County or its agent in the County's name	\$ 612,750
Collateralized with securities held by the pledging financial institution's agent in the County's name	<u>11,015,396</u>
Total covered deposits	\$ 11,628,146
Uncollateralized	<u>-</u>
Total	<u>\$ 11,628,146</u>

Three levels of custodial credit risk for securities are defined by generally accepted accounting principles:

- (1) securities that are insured or registered, or for which the securities are held by the County or its agent in the County's name;
- (2) securities that are uninsured and unregistered and are held by the counterparty's trust department or agent in the County's name; and
- (3) securities that are uninsured and unregistered and are held by the counterparty, or by its trust department or agent, but not in the County's name.

Following is a summary of the fair values of the County's investments at December 31, 2004, categorized by custodial credit risk:

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

	Category			Fair Value
	1	2	3	
Negotiable certificates of deposit with broker	\$ 196,000	\$ -	\$ -	\$ 196,000
Petty cash and change funds				3,000
Departmental cash				12,574
Checking				2,040,444
Money market savings				8,192,381
Certificates of deposit				972,000
Total				<u>\$ 11,416,399</u>

2. Receivables

Receivables as of December 31, 2004, for the County's governmental activities and business-type activities, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 55,681	\$ -
Special assessments	1,501,903	1,296,224
Accounts	40,596	-
Interest	17,302	-
Loans	984,554	820,804
Due from other governments	1,234,242	-
Total Governmental Activities	<u>\$ 3,834,278</u>	<u>\$ 2,117,028</u>
Business-Type Activities		
Taxes	\$ 1,086	\$ -
Accounts	108,676	-
Total Business-Type Activities	<u>\$ 109,762</u>	<u>\$ -</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

Details on Loans Receivable

	<u>Total Receivables</u>
Loans Receivable	
Seed Capital Loan Program	
D&L Welding & Machine	\$ 16,416
Windom Economic Development	25,000
Sew Much More	2,304
Big Bend Snowriders	20,000
Clean Water Partnership Loans	<u>920,834</u>
Total	<u>\$ 984,554</u>

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. These loans have been made to private enterprises and are offset by deferred revenue.

In 2004, Cottonwood County made a \$10,000 interest-free loan to the Big Bend Snowriders. No schedule of repayment was established. Big Bend Snowriders was loaned \$10,000 in a previous year and has a balance remaining of \$20,000.

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 its Pollution Control Agency (PCA) and the Brown-Nicollet-Cottonwood Project Joint Powers Board. The loans are to be interest-free with repayment terms from 5 to 20 years and are used for a variety of groundwater improvement projects. These loans receivable are offset by a liability of due to other governments because the County is required to repay all funds to the PCA. In 1998, an additional \$50,000 in Ag Well loan funds was received through the Minnesota Department of Agriculture. The loan terms and repayment are similar to those received through the PCA. In 2000, the County entered into the Watonwan Watershed Project loan program with \$370,000 available for

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

2. Receivables

Details on Loans Receivable (Continued)

site-specific groundwater improvement projects. In early 2000, the County approved three groundwater loans under the previous loan program after funding through the State of Minnesota had been exhausted. County funds in the amount of \$15,200 were loaned out at 3.5 percent interest with repayment terms similar to those received through the PCA. Activity during 2004 was:

Project Loan Agreements		
Beginning balance	\$	892,905
Loans made in 2004		192,885
Loan repayments		<u>(164,956)</u>
Ending Balance	\$	<u>920,834</u>

3. Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

Governmental Activities

	Beginning Balance, as Restated	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 311,551	\$ -	\$ -	\$ 311,551
Right of way	688,378	9,035	-	697,413
Construction in progress	<u>1,242,218</u>	<u>2,084,789</u>	<u>1,242,218</u>	<u>2,084,789</u>
Total capital assets not depreciated	<u>\$ 2,242,147</u>	<u>\$ 2,093,824</u>	<u>\$ 1,242,218</u>	<u>\$ 3,093,753</u>
Capital assets depreciated				
Buildings	\$ 4,101,623	\$ 166,988	\$ -	\$ 4,268,611
Machinery and equipment	3,663,570	572,806	345,813	3,890,563
Infrastructure	<u>32,484,629</u>	<u>3,555,934</u>	<u>-</u>	<u>36,040,563</u>
Total capital assets depreciated	<u>\$ 40,249,822</u>	<u>\$ 4,295,728</u>	<u>\$ 345,813</u>	<u>\$ 44,199,737</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Governmental Activities (Continued)

	Beginning Balance, as Restated	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	\$ 1,356,442	\$ 102,075	\$ -	\$ 1,458,517
Machinery and equipment	2,206,160	275,266	345,813	2,135,613
Infrastructure	7,351,638	708,294	-	8,059,932
Total accumulated depreciation	<u>\$ 10,914,240</u>	<u>\$ 1,085,635</u>	<u>\$ 345,813</u>	<u>\$ 11,654,062</u>
Total capital assets depreciated, net	<u>\$ 29,335,582</u>	<u>\$ 3,210,093</u>	<u>\$ -</u>	<u>\$ 32,545,675</u>
Governmental Activities Capital Assets, Net	<u>\$ 31,577,729</u>	<u>\$ 5,303,917</u>	<u>\$ 1,242,218</u>	<u>\$ 35,639,428</u>

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
Machinery and equipment	425,095	-	-	425,095
Total capital assets depreciated	<u>\$ 448,795</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 448,795</u>
Less: accumulated depreciation on				
Buildings	\$ 15,076	\$ 790	\$ -	\$ 15,866
Machinery and equipment	237,487	30,037	-	267,524
Total accumulated depreciation	<u>\$ 252,563</u>	<u>\$ 30,827</u>	<u>\$ -</u>	<u>\$ 283,390</u>
Total capital assets depreciated, net	<u>\$ 196,232</u>	<u>\$ (30,827)</u>	<u>\$ -</u>	<u>\$ 165,405</u>
Business-Type Activities Capital Assets, Net	<u>\$ 360,114</u>	<u>\$ (30,827)</u>	<u>\$ -</u>	<u>\$ 329,287</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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

Governmental Activities		
General government	\$	50,039
Public safety		10,930
Highways and streets, including depreciation of infrastructure assets		923,598
Family services		63,352
Culture and recreation		24,612
Conservation of natural resources		7,018
Sanitation		6,086
Total Depreciation Expense - Governmental Activities	\$	1,085,635
Business-Type Activities		
Landfill	\$	30,827

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2004, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Road and Bridge	\$ 242
Road and Bridge	General	2,723
	Ditch	56
Building	General	5,057
Landfill	General	10,114
Total Due To/From Other Funds		\$ 18,192

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers (Continued)

2. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General	Ditch	\$ 54,087

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2004, consisted of the following:

Transfers to General Fund from Landfill Fund	\$ 15,000	Provide funds for recycling
Transfer to Road and Bridge Fund from General Fund	1,637	Provide funding
Transfer to Family Services Fund from General Fund	139,139	Provide funding
Transfer to Ditch Fund from General Fund	3,783	Provide funding
Transfer to Debt Service Fund from General Fund	3,425	Provide funding
Transfers to Landfill Fund from General Fund	28,187	Provide funding
Total Interfund Transfers	\$ 191,171	

C. Liabilities

1. Payables

Payables at December 31, 2004, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	\$ 311,877	\$ 18,963
Salaries	71,436	16,760
Contracts	125,318	-
Due to other governments	99,847	-
Total Payables	\$ 608,478	\$ 35,723

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Post-Employment Benefits

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.

This post-service benefit is funded on a pay-as-you-go basis. The County had nine elected officials who were eligible for this benefit in 2004. The total cost for this program totaled \$73,920 in 2004.

3. Long-Term Debt

Governmental Activities

Bonds Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2004
General obligation bonds					
1996 G.O. tax increment bonds	2007	\$ 30,000 – \$195,000	7.640	\$ 1,260,000	\$ 545,000
2004 G.O. tax increment refunding bonds	2007	\$190,000 – \$195,000	3.092	385,000	385,000
1997 G.O. correctional facility refunding bonds	2006	\$145,000 – \$190,000	4.782	<u>1,170,000</u>	<u>375,000</u>
Total general obligation bonds				<u>\$ 2,815,000</u>	\$ 1,305,000
Less: unamortized discount					<u>1,540</u>
Total general obligation bonds, net					<u>\$ 1,303,460</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt

Governmental Activities

Bonds Payable (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2004
Special assessment bonds with government commitment					
1998 G.O. drainage bonds	2020	\$ 10,000 – \$ 30,000	4.857	\$ 2,510,000	\$ 1,965,000
2000 G.O. drainage bonds	2016	\$ 15,000 – \$ 35,000	5.2667	<u>365,000</u>	<u>315,000</u>
Total special assessment bonds with government commitment				<u>\$ 2,875,000</u>	<u>\$ 2,280,000</u>
Total Governmental Activities, Net					<u><u>\$ 3,583,460</u></u>

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 PCA and the Brown-Nicollet-Cottonwood Project Joint Powers Board. The County is required to repay all funds to the PCA. In 1998, an additional \$50,000 in Ag Well loan funds was received through the Minnesota Department of Agriculture. The loan terms and repayment are similar to those received through the PCA. In 2000, the County entered into the Watonwan Watershed Project loan program with \$370,000 available for site-specific groundwater improvement projects. Amounts due back to the state are reported in the General Fund as due to other governments.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

Business-Type Activities

Bonds Payable

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Average Interest Rates (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2004</u>
General obligation bonds					
Series 2004 G.O. landfill bonds	2009	\$ 70,000 - \$ 75,000	2.8688	\$ 365,000	\$ 365,000
Series 1999A G.O. landfill bonds	2006	\$ 65,000 - \$ 80,000	4.0539	<u>360,000</u>	<u>155,000</u>
Total general obligation landfill bonds				<u>\$ 725,000</u>	\$ 520,000
Less: unamortized discount					<u>(6,079)</u>
Total General Obligation Landfill Bonds, Net					<u>\$ 513,921</u>

4. Debt Service Requirements

Debt service requirements at December 31, 2004, were as follows:

Governmental Activities

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>		<u>Special Assessment Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 730,000	\$ 43,851	\$ 150,000	\$ 108,410
2006	380,000	13,747	150,000	101,540
2007	195,000	3,169	150,000	94,670
2008	-	-	150,000	87,715
2009	-	-	155,000	80,478
2010 - 2014	-	-	740,000	292,892
2015 - 2019	-	-	670,000	107,705
2020	-	-	<u>115,000</u>	<u>2,875</u>
Total	<u>\$ 1,305,000</u>	<u>\$ 60,767</u>	<u>\$ 2,280,000</u>	<u>\$ 876,285</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Debt Service Requirements

Governmental Activities (Continued)

<u>Year Ending December 31</u>	<u>Loans Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 116,435	\$ 4,547
2006	139,288	8,872
2007	147,542	9,557
2008	156,035	10,003
2009	122,799	8,740
2010 - 2014	427,189	23,944
2015 - 2019	70,162	1,712
Total	<u>\$ 1,179,450</u>	<u>\$ 67,375</u>

Business-Type Activities

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 145,000	\$ 16,217
2006	150,000	9,125
2007	75,000	5,681
2008	75,000	3,562
2009	75,000	1,219
Total	<u>\$ 520,000</u>	<u>\$ 35,804</u>

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2004, was as follows:

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

5. Changes in Long-Term Liabilities (Continued)

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable (fund liquidating the debt)					
General obligation bonds (General)	\$ 550,000	\$ -	\$ 175,000	\$ 375,000	\$ 185,000
Tax increment (Debt Service)	705,000	385,000	160,000	930,000	545,000
Special assessment debt with government commitment (Ditch)	2,430,000	-	150,000	2,280,000	150,000
Less: unamortized discount	-	(1,540)	-	(1,540)	(513)
Total bonds payable	<u>\$ 3,685,000</u>	<u>\$ 383,460</u>	<u>\$ 485,000</u>	<u>\$ 3,583,460</u>	<u>\$ 879,487</u>
Loans payable	1,094,513	192,886	107,949	1,179,450	116,435
Compensated absences	466,286	11,529	-	477,815	53,420
Governmental Activity Long-Term Liabilities	<u>\$ 5,245,799</u>	<u>\$ 587,875</u>	<u>\$ 592,949</u>	<u>\$ 5,240,725</u>	<u>\$ 1,049,342</u>

Business-Type Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable					
General obligation bonds	\$ 305,000	\$ 365,000	\$ 150,000	\$ 520,000	\$ 145,000
Less: unamortized discount	(2,230)	(6,205)	(2,356)	(6,079)	(1,241)
Total bonds payable	<u>\$ 302,770</u>	<u>\$ 358,795</u>	<u>\$ 147,644</u>	<u>\$ 513,921</u>	<u>\$ 143,759</u>
Estimated liability for landfill closure and postclosure care	1,026,367	3,025	-	1,029,392	-
Compensated absences	11,502	-	299	11,203	-
Business-Type Activity Long-Term Liabilities	<u>\$ 1,340,639</u>	<u>\$ 361,820</u>	<u>\$ 147,943</u>	<u>\$ 1,554,516</u>	<u>\$ 143,759</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Current Refunding of Debt

On November 1, 2004, Cottonwood County issued \$385,000 in Taxable General Obligation Tax Increment Refunding Bonds of 2004, with interest rates of 2.80 percent to 3.25 percent to current refund the 1996 General Obligation Tax Increment Bonds maturing in the years 2006 through 2007. The balance of the outstanding maturities was \$375,000 with an interest rate of 7.75 percent.

These outstanding maturities were called on February 1, 2005. The current refunding reduced total debt service payments over the next three years by \$13,823. This results in an economic gain (difference between the present value of the debt service payments on the old and new debt service) of \$13,223.

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 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 \$1,029,392 landfill closure and postclosure care liability at December 31, 2004, represents the cumulative amount reported to date based on the use of 54 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$866,375 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2004. The Board expects to close the landfill in 2122. 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, 2004, the County has in restricted assets \$1,338,668 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.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

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 for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. The County self-insures for employee health and dental coverage. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of the 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. The MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$720,000 per claim in 2004 and at \$760,000 per claim in 2005. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by the MCIT.

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

In November 1988, the County began to self-insure for employee health insurance coverage. The County has retained risk up to \$50,000 stop-loss per person per year (\$1,383,280 aggregate) for the health plan. At December 31, 2004, the amount of the County's liability was \$98,353. This liability is the County's best estimate based on available information.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are re-evaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. Changes in the balances of claims liabilities during the past two years are as follows:

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

5. Risk Management (Continued)

	Year Ended December 31	
	2003	2004
Unpaid claims, beginning of fiscal year	\$ 99,085	\$ 137,456
Incurred claims (including IBNRs)	1,357,597	1,344,177
Claims payments	(1,319,226)	(1,383,280)
Unpaid Claims, End of Fiscal Year	\$ 137,456	\$ 98,353

6. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

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

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution and have direct contact with inmates are covered by the Public Employees Correctional Fund.

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

6. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

For all Public Employees Retirement Fund members whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

6. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans (Continued)

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 6.20 percent of their annual covered salary. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53
Public Employees Police and Fire Fund	9.30
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2004, 2003, and 2002, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund, were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2004	\$ 162,586	\$ 32,611	\$ 23,920
2003	161,299	28,684	24,410
2002	167,831	26,472	10,446

These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

6. Employee Retirement Systems and Pension Plans (Continued)

B. Defined Contribution Plan

The Public Employees Defined Contribution Plan is a multiple-employer deferred compensation plan for local government officials, except elected county sheriffs. The plan is established and administered in accordance with Minn. Stat. ch. 353D. 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 retirement.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minn. Stat. § 353D.03 specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary, which is matched by the employer.

No vesting period is required to receive benefits in the Defined Contribution Plan. At the time of retirement or termination, the market value of the member's account is distributed to the member or another qualified plan.

The County's contributions for the years ending December 31, 2004, 2003, and 2002, were \$1,710, \$1,627, and none, respectively, equal to the contractually required contributions for each year as set by state statute.

7. Summary of Significant Contingencies and Other Items

A. Subsequent Events

Advance Crossover Refunding of Debt

On February 1, 2005, Cottonwood County issued General Obligation Drainage Crossover Refunding Bonds, Series 2005A, in the amount of \$1,900,000, with interest rates of 2.35 percent to 4.10 percent, to advance crossover refund the following issues:

The General Obligation Drainage Bonds of 1998, dated May 1, 1998, maturing after February 1, 2007. The balance of the outstanding maturities to be refunded is \$1,575,000, and interest rates are 4.60 percent to 5.00 percent.

The General Obligation Drainage Bonds, Series 2000A, dated April 1, 2000, maturing after February 1, 2007. The balance of the outstanding maturities to be refunded is \$255,000, and interest rates are 5.30 percent to 5.65 percent.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

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

B. 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.

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

C. Joint Ventures

Cottonwood-Jackson Community Health Services Board

The Cottonwood-Jackson Community Health Services Board was established pursuant to Minn. Stat. ch. 145A and a joint powers agreement effective January 1, 1977.

The Cottonwood-Jackson Community Health Services Board is made up of the five elected County Commissioners from both Cottonwood and Jackson Counties. Both counties levy a tax to help support the Health Services Board. For 2004, Cottonwood County contributed \$109,844 to the Health Services Board. For 2003 (the latest information available), the Health Services Board had a decrease in retained earnings of \$19,697 from operations. At December 31, 2003, total retained earnings were \$170,512.

Complete financial statements for the Health Services Board can be obtained at 503 Fourth Street, Jackson, Minnesota 56143.

Southwestern Minnesota Adult Mental Health Consortium Board

In November 1997, the County entered into a joint powers agreement with several other governmental entities to create the Southwestern Minnesota Adult Mental Health Consortium Board under the authority of Minn. Stat. § 471.59. The Board is headquartered in Windom, Minnesota, where Cottonwood County acts as fiscal host.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

The Board shall take actions and enter into such agreements as may be necessary to plan and develop within the Southwestern Minnesota Adult Mental Health Consortium Board's geographic jurisdiction, a system of care that will serve 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.

The following is a summary of the Board's annual financial report for the year ended December 31, 2003 (the latest information available):

Total assets	\$ 220,978
Total liabilities	5,230
Total equity	215,748
Total revenues	889,414
Total expenditures	856,904
Net increase to fund balance	32,510

The Board reported no long-term obligations at December 31, 2003. A complete financial report of the Southwestern Minnesota Adult Mental Health Consortium Board can be obtained at the Cottonwood County Family Services Agency, Windom, Minnesota 56101.

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. The participating Counties of Brown, Cottonwood, Lyon, Murray, Redwood, and Watonwan have agreed to guarantee their share 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 Red Rock Rural Water System is governed by a nine-member board appointed for terms of three years by the District Court.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Red Rock Rural Water System (Continued)

Each county is responsible for levying and collecting the special assessments from the benefited properties within the county. A bond issue and notes payable are shown as long-term debt on the financial statements of the Red Rock Rural Water System. Outstanding bonds at December 31, 2003 (the latest information available), were \$7,115,000, and notes payable were \$55,437. Retained earnings were \$1,164,138.

A complete financial report can be obtained at 305 West Whited Street, Jeffers, Minnesota 56145.

D. Jointly-Governed Organization

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

Family Service Collaborative

The Family Service Collaborative was established to create opportunities to enhance family strengths and support through service coordination and access to informal communication. Cottonwood County has no operational or financial control over the Collaborative.

E. Agriculture Best Management Loan Program

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

8. Tax Increment Financing

Name of District:	Ethanol Tax Increment Financing District, No. 1-1
Type of District:	Economic Development
Authorizing Law:	§§ 469.001 to 469.047 and 469.174 to 469.179
Date Established:	May 7, 1996
Duration of District:	11 years
Original Tax Capacity:	\$884
Current Tax Capacity:	\$157,147
Captured Tax Capacity Retained by Authority:	\$156,263
Total G.O. Taxable Tax Increment Bonds Issued:	\$1,645,000
Amounts Redeemed:	\$715,000
Outstanding Bonds at December 31, 2004:	\$930,000

The project in this District is Ethanol 2000 (Ethanol Production Plant). No other tax increment obligations were issued on behalf of private entities for facilities located in the District.

This page was left blank intentionally.

REQUIRED SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,594,776	\$ 2,594,776	\$ 2,398,818	\$ (195,958)
Special assessments	106,000	106,000	181,273	75,273
Licenses and permits	4,481	4,481	16,513	12,032
Intergovernmental	988,860	1,048,860	1,656,213	607,353
Charges for services	304,600	304,600	297,298	(7,302)
Fines and forfeits	500	500	-	(500)
Investment earnings	170,700	170,700	162,414	(8,286)
Miscellaneous	158,180	158,180	240,392	82,212
Total Revenues	\$ 4,328,097	\$ 4,388,097	\$ 4,952,921	\$ 564,824
Expenditures				
Current				
General government				
Commissioners	\$ 210,654	\$ 210,654	\$ 211,644	\$ (990)
Courts	88,855	88,855	22,783	66,072
Law library	-	-	9,463	(9,463)
County auditor/treasurer	274,292	274,292	232,422	41,870
County assessor	211,158	213,658	196,789	16,869
Elections	50,362	50,362	45,599	4,763
Accounting and auditing	28,000	28,000	36,419	(8,419)
Data processing	87,703	87,703	93,179	(5,476)
Attorney	220,175	220,175	223,071	(2,896)
Recorder	154,677	154,677	161,341	(6,664)
Buildings and plant	77,219	77,219	83,043	(5,824)
Veterans service officer	87,218	87,218	82,708	4,510
Other general government	115,700	119,350	119,726	(376)
Total general government	\$ 1,606,013	\$ 1,612,163	\$ 1,518,187	\$ 93,976
Public safety				
Sheriff	\$ 529,599	\$ 529,599	\$ 605,648	\$ (76,049)
Dispatching	-	-	1,200	(1,200)
Coroner	2,000	2,000	5,087	(3,087)
E-911 system	-	-	25,834	(25,834)
Law enforcement center	570,148	606,148	622,563	(16,415)
Probation and parole	111,059	111,059	141,691	(30,632)
Civil defense	30,607	30,607	49,549	(18,942)
Other public safety	3,673	3,673	2,907	766
Total public safety	\$ 1,247,086	\$ 1,283,086	\$ 1,454,479	\$ (171,393)
Sanitation				
Recycling	\$ 198,266	\$ 198,266	\$ 198,792	\$ (526)
Hazardous waste	6,200	6,200	5,170	1,030
Total sanitation	\$ 204,466	\$ 204,466	\$ 203,962	\$ 504

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Health				
Community health services	\$ 7,925	\$ 7,925	\$ 7,925	\$ -
Culture and recreation				
Historical society	\$ 33,250	\$ 33,250	\$ 27,905	\$ 5,345
Transportation	97,957	97,957	102,861	(4,904)
Parks	64,218	69,218	68,206	1,012
Senior centers	11,400	11,400	11,400	-
Regional library	48,886	48,886	57,349	(8,463)
Other	1,350	1,350	2,072	(722)
Total culture and recreation	\$ 257,061	\$ 262,061	\$ 269,793	\$ (7,732)
Conservation of natural resources				
Extension	\$ 109,057	\$ 109,057	\$ 96,337	\$ 12,720
Soil and water conservation	86,400	86,400	84,905	1,495
Agricultural society/County fair	17,500	17,500	17,500	-
Soil survey	-	-	37,748	(37,748)
Water quality loan program	135,400	135,400	226,231	(90,831)
River basin	10,458	61,953	26,740	35,213
Water planning	147,713	147,713	100,034	47,679
Environmental services	119,774	119,774	103,761	16,013
Total conservation of natural resources	\$ 626,302	\$ 677,797	\$ 693,256	\$ (15,459)
Economic development				
Community development	\$ 7,450	\$ 7,450	\$ -	\$ 7,450
Other	6,200	6,200	4,275	1,925
Total economic development	\$ 13,650	\$ 13,650	\$ 4,275	\$ 9,375
Intergovernmental				
Health	\$ 112,268	\$ 112,268	\$ 109,844	\$ 2,424
Capital outlay				
General government	\$ -	\$ -	\$ 62,384	\$ (62,384)
Public safety	-	-	71,078	(71,078)
Culture and recreation	-	-	11,300	(11,300)
Conservation of natural resources	-	-	15,568	(15,568)
Total capital outlay	\$ -	\$ -	\$ 160,330	\$ (160,330)

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures (Continued)				
Debt service				
Principal retirement	\$ 160,000	\$ 160,000	\$ 160,000	\$ -
Interest	\$ 48,500	\$ 48,500	\$ 49,745	\$ (1,245)
Bond issuance costs	\$ -	\$ -	\$ 9,330	\$ (9,330)
Total Expenditures	\$ 4,283,271	\$ 4,381,916	\$ 4,641,126	\$ (259,210)
Excess of Revenues Over (Under) Expenditures	\$ 44,826	\$ 6,181	\$ 311,795	\$ 305,614
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 15,000	\$ 15,000
Transfers out	-	-	(176,171)	(176,171)
Proceeds from sale of refunding bonds	-	-	385,000	385,000
Discount on bonds issued	-	-	(1,540)	(1,540)
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 222,289	\$ 222,289
Net Change in Fund Balance	\$ 44,826	\$ 6,181	\$ 534,084	\$ 527,903
Fund Balance - January 1	4,505,832	4,505,832	4,505,832	-
Fund Balance - December 31	\$ 4,550,658	\$ 4,512,013	\$ 5,039,916	\$ 527,903

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 902,500	\$ 902,500	\$ 802,562	\$ (99,938)
Intergovernmental	2,843,623	2,843,623	5,270,059	2,426,436
Charges for services	30,000	30,000	75,224	45,224
Miscellaneous	65,700	65,700	31,704	(33,996)
Total Revenues	\$ 3,841,823	\$ 3,841,823	\$ 6,179,549	\$ 2,337,726
Expenditures				
Current				
Highways and streets				
Administration	\$ 195,657	\$ 195,657	\$ 220,915	\$ (25,258)
Maintenance	985,562	985,562	980,917	4,645
Construction	1,600,047	1,600,047	3,522,833	(1,922,786)
Equipment and maintenance shops	855,833	855,833	857,287	(1,454)
Total highways and streets	\$ 3,637,099	\$ 3,637,099	\$ 5,581,952	\$ (1,944,853)
Intergovernmental				
Highways and streets	-	-	263,091	(263,091)
Total Expenditures	\$ 3,637,099	\$ 3,637,099	\$ 5,845,043	\$ (2,207,944)
Excess of Revenues Over (Under) Expenditures	\$ 204,724	\$ 204,724	\$ 334,506	\$ 129,782
Other Financing Sources (Uses)				
Transfers in	-	-	1,637	1,637
Net Change in Fund Balance	\$ 204,724	\$ 204,724	\$ 336,143	\$ 131,419
Fund Balance - January 1	1,095,591	1,095,591	1,095,591	-
Increase (decrease) in reserved for inventories	-	-	(8,554)	(8,554)
Fund Balance - December 31	\$ 1,300,315	\$ 1,300,315	\$ 1,423,180	\$ 122,865

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,592,264	\$ 1,592,264	\$ 1,378,070	\$ (214,194)
Intergovernmental	2,011,768	2,011,768	2,303,928	292,160
Charges for services	10,000	10,000	15,000	5,000
Miscellaneous	166,085	166,085	192,093	26,008
Total Revenues	\$ 3,780,117	\$ 3,780,117	\$ 3,889,091	\$ 108,974
Expenditures				
Current				
Human services				
Income maintenance	\$ 851,508	\$ 851,508	\$ 959,525	\$ (108,017)
Social services	2,928,609	2,928,609	3,034,468	(105,859)
Total Expenditures	\$ 3,780,117	\$ 3,780,117	\$ 3,993,993	\$ (213,876)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (104,902)	\$ (104,902)
Other Financing Sources (Uses)				
Transfers in	-	-	139,139	139,139
Net Change in Fund Balance	\$ -	\$ -	\$ 34,237	\$ 34,237
Fund Balance - January 1	996,149	996,149	996,149	-
Fund Balance - December 31	\$ 996,149	\$ 996,149	\$ 1,030,386	\$ 34,237

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
DITCH FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ 213,002	\$ 213,002	\$ 277,757	\$ 64,755
Miscellaneous	-	-	1,455	1,455
Total Revenues	\$ 213,002	\$ 213,002	\$ 279,212	\$ 66,210
Expenditures				
Current				
Conservation of natural resources				
Other	\$ -	\$ -	\$ 96,519	\$ (96,519)
Debt service				
Principal retirement	150,000	150,000	150,000	-
Interest	115,260	115,260	115,260	-
Administrative (fiscal) charges	470	470	470	-
Total Expenditures	\$ 265,730	\$ 265,730	\$ 362,249	\$ (96,519)
Excess of Revenues Over (Under) Expenditures	\$ (52,728)	\$ (52,728)	\$ (83,037)	\$ (30,309)
Other Financing Sources (Uses)				
Transfers in	-	-	3,783	3,783
Net Change in Fund Balance	\$ (52,728)	\$ (52,728)	\$ (79,254)	\$ (26,526)
Fund Balance - January 1	791,891	791,891	791,891	-
Fund Balance - December 31	\$ 739,163	\$ 739,163	\$ 712,637	\$ (26,526)

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
BUILDING FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 50,000	\$ 50,000	\$ 44,392	\$ (5,608)
Intergovernmental	-	-	5,057	5,057
Miscellaneous	-	-	37,809	37,809
Total Revenues	\$ 50,000	\$ 50,000	\$ 87,258	\$ 37,258
Expenditures				
Current				
General government				
Buildings and plant	50,000	50,000	28,292	21,708
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ -	\$ 58,966	\$ 58,966
Fund Balance - January 1	42,034	42,034	42,034	-
Fund Balance - December 31	\$ 42,034	\$ 42,034	\$ 101,000	\$ 58,966

This page was left blank intentionally.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004**

1. General Budget Policies

The Cottonwood County Board adopts estimated revenue and expenditure budgets for the General Fund, certain special revenue funds, and the Debt Service 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 budgeted special revenue funds.

2. Budget Basis of Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles.

3. Budget Amendments

The expenditure budget in the General Fund was amended as follows:

	<u>Original Budget</u>	<u>Increase (Decrease)</u>	<u>Final Budget</u>
General Fund	\$ 4,283,271	\$ 98,645	\$ 4,381,916

4. 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.

Even with these adjustments, the actual charges to appropriations (expenditures) were \$259,210 above the final budget amounts. Reasons for significant variances of actual expenditures from final budget include expenditures made from departments without budgeted expenses and higher-than-anticipated overtime in the Law Enforcement departments.

On the other hand, resources available for appropriation were also \$564,824 above the final budgeted amount. Greater-than-expected collections for certain fees offset reductions in anticipated investment earnings and state appropriations.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

5. Excess of Expenditures Over Budget

<u>Fund</u>	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General	\$ 4,641,126	\$ 4,381,916	\$ 259,210
Road and Bridge	5,845,043	3,637,099	2,207,944
Family Services	3,993,993	3,780,117	213,876
Ditch	362,249	265,730	96,519
Debt Services	197,890	197,800	90

SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

Schedule 6

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 197,800	\$ 197,800	\$ 175,877	\$ (21,923)
Expenditures				
Debt service				
Principal retirement	\$ 175,000	\$ 175,000	\$ 175,000	\$ -
Interest	22,800	22,800	22,765	35
Administrative (fiscal) charges	-	-	125	(125)
Total Expenditures	\$ 197,800	\$ 197,800	\$ 197,890	\$ (90)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (22,013)	\$ (21,833)
Other Financing Sources (Uses)				
Transfers in	-	-	3,425	3,425
Net Change in Fund Balance	\$ -	\$ -	\$ (18,588)	\$ (18,408)
Fund Balance - January 1	319,382	319,382	319,382	-
Fund Balance - December 31	\$ 319,382	\$ 319,382	\$ 300,794	\$ (18,408)

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

Statement 1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Balance January 1	Additions	Deductions	Balance December 31
<u>AGENCY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 9,410	\$ 616,991	\$ 610,781	\$ 15,620
<u>Liabilities</u>				
Due to other governments	\$ 9,410	\$ 616,991	\$ 610,781	\$ 15,620
 <u>MENTAL HEALTH CONSORTIUM</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 84,743	\$ 1,279,695	\$ 1,282,297	\$ 82,141
<u>Liabilities</u>				
Due to other governments	\$ 84,743	\$ 1,279,695	\$ 1,282,297	\$ 82,141
 <u>MORTGAGE REGISTRY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 6,745	\$ 113,738	\$ 103,975	\$ 16,508
<u>Liabilities</u>				
Due to other governments	\$ 6,745	\$ 113,738	\$ 103,975	\$ 16,508

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

***Statement 1
(Continued)***

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Balance January 1	Additions	Deductions	Balance December 31
<u>STATE DEED TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 6,962	\$ 97,229	\$ 93,371	\$ 10,820
<u>Liabilities</u>				
Due to other governments	\$ 6,962	\$ 97,229	\$ 93,371	\$ 10,820
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 322,653	\$ 11,676,919	\$ 11,929,671	\$ 69,901
<u>Liabilities</u>				
Due to other governments	\$ 322,653	\$ 11,676,919	\$ 11,929,671	\$ 69,901
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 430,513	\$ 13,784,572	\$ 14,020,095	\$ 194,990
<u>Liabilities</u>				
Due to other governments	\$ 430,513	\$ 13,784,572	\$ 14,020,095	\$ 194,990

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

Schedule 7

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Total Governmental Funds	Landfill Enterprise Fund	Total All Funds
Shared Revenue			
State			
Highway users tax	\$ 4,555,686	\$ -	\$ 4,555,686
County program aid	633,591	-	633,591
PERA rate reimbursement	17,411	-	17,411
Disparity reduction aid	47,860	-	47,860
Police aid	28,684	-	28,684
Enhanced 911	41,703	-	41,703
Market value credit	523,746	10,114	533,860
Total Shared Revenue	\$ 5,848,681	\$ 10,114	\$ 5,858,795
Reimbursement for Services			
State			
Minnesota Department of Human Services	\$ 1,081,765	\$ -	\$ 1,081,765
Payments			
Local			
Payments in lieu of taxes	\$ 64,413	\$ -	\$ 64,413
Grants			
State			
Minnesota Department/Board of Agriculture	\$ 22,460	\$ -	\$ 22,460
Corrections	28,100	-	28,100
Public Safety	13,956	-	13,956
Transportation	66,487	-	66,487
Human Services	771,365	-	771,365
Soil and Water Resources	43,521	-	43,521
Office of Environmental Assistance	49,099	-	49,099
Pollution Control Agency	252,883	-	252,883
Miscellaneous boards	2,507	-	2,507
Total State	\$ 1,250,378	\$ -	\$ 1,250,378
Federal			
Department of Agriculture	\$ 3,655	\$ -	\$ 3,655
Transportation	633,525	-	633,525
Health and Human Services	322,375	-	322,375
Homeland Security	30,465	-	30,465
Total Federal	\$ 990,020	\$ -	\$ 990,020
Total State and Federal Grants	\$ 2,240,398	\$ -	\$ 2,240,398
Total Intergovernmental Revenue	\$ 9,235,257	\$ 10,114	\$ 9,245,371

This page was left blank intentionally.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

Schedule 8

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2004

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of Cottonwood County.
- B. A reportable condition in internal control over financial reporting is disclosed by the audit of financial statements of Cottonwood County and is reported in the "Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." The reportable condition is not a material weakness.
- C. No instances of noncompliance material to the financial statements of Cottonwood County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award program for Cottonwood County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major program is:
 - Highway Planning and Construction CFDA #20.205
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Cottonwood County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

99-1 Internal Accounting Controls

Due to the limited number of office personnel within the various County departments, proper segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. Although this is not unusual in small departmental situations, management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

We recommend that County management be aware of the lack of segregation of the accounting functions and, if possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff.

Client's Response:

Oversight procedures are in place.

PREVIOUSLY REPORTED ITEM RESOLVED

General Ledger (Family Services) (03-1)

The Family Services Department did not close its general ledger system at year-end. Therefore, cash balances could be changed by manual correction of voids and data entry errors when inputting receipts and disbursements. Because the previous year was not closed, the system backdated the transactions and changed the cash balance. For the year ended December 31, 2003, cash was out of balance by \$28,284 in the fund.

Resolution

The fiscal officer of Family Services closed the books at the end of 2004 to prevent correcting entries and errors from affecting the cash balance.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

01-6 Collateral Assignments

The County did not have documentation demonstrating that it had a perfected interest in pledged collateral with Bank of the West. In a Federal Court decision, the Court ruled that if a municipality fails to perfect a security interest under federal law, its right to such collateral in the event of default is not enforceable. Minn. Stat. § 118A.03, subd. 3, requires the County to obtain an assignment of pledged collateral equal to “at least ten percent more than the amount on deposit plus accrued interest at the close of the business day,” in excess of federal deposit insurance.

The County is not complying with the collateral requirement unless it obtains an enforceable assignment of pledged collateral. To obtain an enforceable assignment under federal law (12 U.S.C. § 1823(e)), the County must obtain a written assignment of collateral which is approved by the depository bank’s board of directors or loan committee and is a continuous official record of the bank.

We recommend that the County obtain the documentation indicating it has perfected a security interest in pledged collateral.

Client’s Response:

Bank of the West system is working on a procedure and documentation that will meet this requirement.

02-2

Undistributed Collections in Taxes and Penalties Agency Fund

At December 31, 2004, undistributed collections in the Taxes and Penalties Agency Fund were \$40,943. The County Auditor/Treasurer could not explain the unreconciled variance as of June 13, 2005.

Minn. Stat. § 276.111 states that amounts collected from the previous settlement date to December 31 should be settled “to each of the taxing districts on or before January 25. . . .” This statute goes on to say, “Interest accrues at an annual rate of eight percent and must be paid to the taxing district if this final settlement amount is not paid by January 25.”

We recommend that the County comply with the provisions of Minn. Stat. § 276.111.

Client’s Response:

The County will comply.

PREVIOUSLY REPORTED ITEM RESOLVED

Prompt Payment of Claims (Family Services) (01-9)

Two of the disbursements tested in the Family Services Department were paid in an untimely manner. One of the claims was paid off an invoice that noted a previous balance and finance charge. Another invoice was dated October 14, 2003, and was not paid until February 13, 2004.

Resolution

The County complies with Minn. Stat. § 471.425, subd. 2, and monitors all vendor invoices and takes advantage of all discounts and makes sure that all invoices are paid in a timely manner.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-6 County Ditch Fund Deficits

Nine of the 97 individual ditch systems had deficit fund balances as of December 31, 2004, totaling \$698,732, which is a increase from the \$690,903 reported in the prior audit. The largest fund balance deficit of \$438,057, in Sinking Ditch 9 Improvement, is an increase from \$411,080 reported in the prior year. The increasing deficit indicates that assessments are not sufficient to cover bond principal and interest payments.

Minn. Stat. § 103E.735, subd. 1, provides that a fund balance to be used for repairs may be established for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$40,000, whichever is larger.

We recommend the County eliminate the ditch fund balance deficits by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1, which permits the accumulation of a surplus balance to provide for the repair and maintenance costs of a ditch system and repay the General Fund for the loans advanced to the County Ditch Special Revenue Fund.

Client's Response:

The County is currently levying assessments to eliminate deficit ditch balances. They should all have a positive balance in five years.

00-3 Budgeting Procedures

Although the County adopts a formal budget, expenditure estimates and the annual budget appropriations to the various operational funds within the County are not always clear. The County adopts the budget in summary form. In addition, the summary budget on file did not agree with the expenditure guidelines in the accounting system and not all budget amendments were shown in the Board minutes.

Generally accepted accounting principles and the County Financial Accounting and Reporting Standards recommend that the expenditure estimates and the annual budget be appropriated to the various operational entities within the County and that line-item budget detail by fund should be available. The appropriations constitute maximum expenditure authorizations during the fiscal year and cannot legally be exceeded unless subsequently amended by the County Board. Good budget accounting requires: (1) an annual budget be adopted by every governmental unit; (2) the accounting system provide the basis for appropriate budgetary control; and (3) a common terminology and classification that can be used consistently throughout budgets, accounts, and financial reports of each fund. The County Board should adopt an accurate budget, and it should be followed by the County. The adopted budget should be designed so that comparisons can be made between current year and budget year. Any amendments to the budget should be Board-approved and documented in the Board minutes.

We recommend that the County implement procedures to improve its budgetary accounting by including in the County Board minutes the amounts approved for each fund's revenues and expenditures budget. We also recommend that any changes to the original budget be approved by formal Board resolution and be so documented.

Client's Response:

The County has implemented this procedure for 2005.

01-15

Payroll System

Payroll is processed on an automatic pay system for regular full-time employees of all funds. There is no lag time from the time worked to the time paid. The employees paid at the Courthouse are paid on the 22nd of the month. Family Services and Road and Bridge employees are paid on the 15th and the last day of the month. The Board approves an annual salary, and the employees are paid one-twelfth or one-twenty-fourth of the salary each paycheck. However, employees still earn and are paid for overtime and compensatory time.

In a positive payroll system, employees are paid for the hours worked in a completed pay period and report on time sheets that have been signed by the employee and approved by the supervisor. A positive payroll system generally requires the use of a hold-back period to allow for processing time and provides additional assurance that employees are paid only for those hours that have been worked.

We recommend that the County implement a positive payroll system where wages are not paid until payroll information for a completed pay period has been received and reviewed. A hold-back period should be established to allow for processing.

Client's Response:

The County will review payroll procedures.

PREVIOUSLY REPORTED ITEM RESOLVED

Board Minute Omissions (03-3)

During our audit, we noted several problems with the Board minutes documentation of bidding, contracting, and disbursements.

Resolution

The County is in compliance with Minnesota statutes regarding contracting and disbursements, and a complete record of County Board meetings is maintained.

This page was left blank intentionally.

OTHER REQUIRED REPORTS

This page was left blank intentionally.



STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
Cottonwood County

We have audited the financial statements of Cottonwood County as of and for the year ended December 31, 2004, and have issued our report thereon dated July 5, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cottonwood County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 99-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal

control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition indicated above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cottonwood County's financial statements are free of 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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, Cottonwood County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as items 01-6 and 02-2.

This report is intended solely for the information and use of the Board of County Commissioners and management and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: July 5, 2005



STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

PATRICIA ANDERSON
STATE AUDITOR

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners
Cottonwood County

Compliance

We have audited the compliance of Cottonwood County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2004. Cottonwood County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Cottonwood County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, Cottonwood County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2004.

Internal Control Over Compliance

The management of Cottonwood County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Cottonwood County as of and for the year ended December 31, 2004, and have issued our report thereon dated July 5, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of County Commissioners, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: July 5, 2005

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

Schedule 9

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services		
Matching Grants for Food Stamp Program	10.561	\$ <u>3,655</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction	20.205	\$ 619,006
Public Transportation for Non-Urbanized Areas	20.509	14,231
Safety Incentives for Seatbelt Use	20.604	<u>288</u>
Total U.S. Department of Transportation		\$ <u>633,525</u>
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services		
Temporary Assistance for Needy Families (TANF)	93.558	\$ 63,162
Child Welfare Services - State Grants	93.645	5,797
Foster Care Title IV-E	93.658	96,480
Social Services Block Grant Title XX	93.667	132,623
Chafee Foster Care Independent Living	93.674	13,892
Community Mental Health Block Grant	93.958	3,931
Passed Through Minnesota Department of Education		
Child Care Mandatory and Matching Funds	93.596	<u>6,490</u>
Total U.S. Department of Health and Human Services		\$ <u>322,375</u>
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
State Domestic Preparedness Equipment Support Program	97.004	\$ 17,225
Emergency Management Performance Grants	97.042	10,525
Supplemental Planning Grant	97.051	<u>2,715</u>
Total U.S. Department of Homeland Security		\$ <u>30,465</u>
Total Federal Awards		\$ <u><u>990,020</u></u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

***Schedule 9
(Continued)***

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Cottonwood County. The County's reporting entity is defined in Note 1.A. to the basic financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting.
3. During 2004, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.