

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

COTTONWOOD COUNTY
WINDOM, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2006

Description of the Office of the State Auditor

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

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

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

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

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

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

For the Year Ended December 31, 2006



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

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

ORGANIZATION
2006

Office	Name	Term Expires
Commissioners		
1st District	Gary Sorenson	January 2007
2nd District	Ron Kuecker ²	January 2009
3rd District	Chuck Severson	January 2007
4th District	Norm Holmen ¹	January 2009
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	Jason Purrington	January 2007
Appointed		
Assessor	Gale Bondhus	Indefinite
Highway Engineer	Ronald Gregg	Indefinite
Veterans Service Officer	Todd Dibble	Indefinite
Environmental Officer	Mike Hanson	Indefinite
Emergency Services Director	Mark Marcy	Indefinite
Family Service Director	Craig Myers	Indefinite

¹Chair 2007

²Chair 2006

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Cottonwood County

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Cottonwood County as of and for the year ended December 31, 2006, 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. 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, 2006, 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 December 18, 2007, 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/Rebecca Otto

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 18, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006
(Unaudited)**

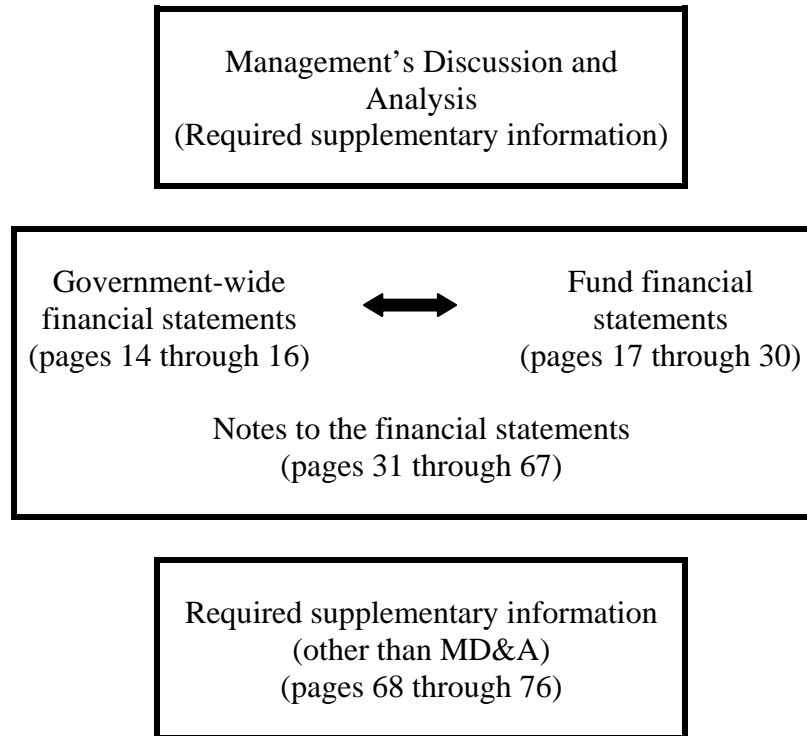
Cottonwood County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2006. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements (beginning on page 14).

FINANCIAL HIGHLIGHTS

- Governmental activities' net assets are \$45,506,345, of which \$38,016,536 is invested in capital assets, net of related debt, leaving \$2,953,608 of the governmental activities' net assets restricted for specific uses and \$4,536,201 as unrestricted.
- Business-type activities have total assets of \$2,589,261. Capital assets are \$439,179, 36 percent, of business-type net assets of \$1,233,403.
- Cottonwood County's net assets increased by \$2,166,914 for the year ended December 31, 2006. Of the increase, \$1,836,801 was in the governmental activities' net assets; \$330,113 represented the increase in business-type activities' net assets.
- The net cost of governmental activities was \$5,483,912 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$7,320,713.
- Governmental funds' fund balances increased by \$566,747. This net increase was due mainly to the increased collection of special assessments, intergovernmental revenue, and interest on investments.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. Cottonwood County's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The MD&A (this section) and 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 14 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 17. 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 14. 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 17. The fund financial statements provide detailed information about the significant funds--not the County as a whole. Some funds are required to be established by state law and by bond covenants. However, the County Board establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The County's two kinds of funds--governmental and proprietary--use different accounting methods.

- Governmental funds--Most of the County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net 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 29 and 30. 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 \$46,739,748. 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

	2006			2005
	Governmental Activities	Business-Type Activities	Total	
Assets				
Current and other assets	\$ 14,068,005	\$ 2,150,082	\$ 16,218,087	\$ 16,113,066
Capital assets	38,083,430	439,179	38,522,609	37,478,674
Total Assets	\$ 52,151,435	\$ 2,589,261	\$ 54,740,696	\$ 53,591,740
Liabilities				
Long-term liabilities	\$ 6,007,998	\$ 1,348,973	\$ 7,356,971	\$ 7,988,939
Other liabilities	637,092	6,885	643,977	1,029,967
Total Liabilities	\$ 6,645,090	\$ 1,355,858	\$ 8,000,948	\$ 9,018,906
Net Assets				
Invested in capital assets, net of related debt	\$ 38,016,536	\$ 439,179	\$ 38,455,715	\$ 37,205,724
Restricted	2,953,608	1,426,684	4,380,292	4,322,654
Unrestricted	4,536,201	(632,460)	3,903,741	3,044,456
Total Net Assets	\$ 45,506,345	\$ 1,233,403	\$ 46,739,748	\$ 44,572,834

Net assets of the County's governmental activities were \$45,506,345. 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--were \$4,536,201 at the end of the year. The net assets of business-type activities were \$1,233,403.

Table 2
Changes in Net Assets
(in Thousands)

	2006			2005
	Governmental Activities	Business-Type Activities	Total	
Revenues				
Program revenues				
Fees, fines, and charges	\$ 1,489	\$ 399	\$ 1,888	\$ 1,520
Operating grants and contributions	4,444	10	4,454	4,135
Capital grants and contributions	1,789	-	1,789	1,778
General revenues				
Property taxes	5,167	87	5,254	5,000
Other taxes	5	-	5	7
Grants, gifts, and miscellaneous	2,219	-	2,219	2,043
Total Revenues	\$ 15,113	\$ 496	\$ 15,609	\$ 14,483
Expenses				
General government	\$ 2,699	\$ -	\$ 2,699	\$ 1,836
Public safety	1,603	-	1,603	1,715
Highways	2,846	-	2,846	3,699
Sanitation	204	-	204	208
Human services	4,499	-	4,499	4,074
Health	110	-	110	121
Culture and recreation	212	-	212	245
Conservation of natural resources	845	-	845	777
Administrative charges	1	-	1	18
Interest	187	-	187	206
Landfill	-	237	237	596
Total Expenses	\$ 13,206	\$ 237	\$ 13,443	\$ 13,495
Increase (Decrease) Before Transfers	\$ 1,907	\$ 259	\$ 2,166	\$ 988
Transfers	(71)	71	-	-
Increase (Decrease) in Net Assets	\$ 1,836	\$ 330	\$ 2,166	\$ 988
Net Assets - January 1	43,670	903	44,573	43,585
Net Assets - December 31	<u>\$ 45,506</u>	<u>\$ 1,233</u>	<u>\$ 46,739</u>	<u>\$ 44,573</u>

The County's activities increased net assets by 4.86 percent (\$46,739,748 for 2006 compared to \$44,572,834 for 2005).

TOTAL COUNTY REVENUE

Governmental Activities

Revenues for the County's governmental activities were \$15,113,173, while total expenses were \$13,205,544 and transfers out were \$70,828. This reflects a \$1,836,801 increase in net assets for the year ended December 31, 2006.

Business-Type Activities

Revenues of the County's business-type activities (see Table 2) were \$496,190, transfers in were \$70,828, and expenses were \$236,905. Reduction of landfill debt service expense is mainly responsible for the \$330,113 increase in net assets for the year ending December 31, 2006.

Governmental Activities' Expenses

The cost of all County activities this year was \$13,442,449. However, as shown in the Statement of Activities on pages 15 and 16, the amount that our taxpayers ultimately financed for these activities through County taxes was \$5,311,509 because some of the cost was paid by those who directly benefited from the programs (\$1,888,799) or by other governments and organizations that subsidized certain programs with grants and contributions (\$6,242,141).

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 2006	Net Cost of Services 2006
Human services	\$ 4,499	\$ 1,786
Highways and streets	2,846	(391)
General government	2,698	2,040
Public safety	1,603	1,354
Conservation of natural resources	845	299
All others	715	396
Totals	\$ 13,206	\$ 5,484

THE COUNTY'S FUNDS

As the County completed the year, its governmental funds (as presented in the Balance Sheet on pages 17 through 20) reported a combined fund balance of \$10,126,386, which is above last year's total of \$9,556,888. The governmental funds' change in fund balance (an increase of \$569,498 for 2006) represents a 5.96 percent increase in governmental fund balances. Most of the governmental funds' increase is due to increased special assessment revenue.

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 \$965,761 above the final budget amounts. The reason for significant variances of actual expenditures from final budget is expenditures made from departments without budgeted expenses and unbudgeted programs, such as the County low-interest septic loan program.

On the other hand, resources available for appropriation were also \$773,721 above the final budgeted amount. Restoration of certain state appropriations and increased investment earnings helped to offset unbudgeted expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2006, the County had \$38,522,609 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) \$1,043,935, or 2.8 percent, over last year.

Table 4
Changes in Capital Assets During 2006

Governmental Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 311,551	\$ -	\$ -	\$ 311,551
Right-of-way	697,413	136	-	697,549
Construction in progress	<u>1,188,992</u>	<u>718,195</u>	<u>1,187,655</u>	<u>719,532</u>
Total capital assets not depreciated	<u>\$ 2,197,956</u>	<u>\$ 718,331</u>	<u>\$ 1,187,655</u>	<u>\$ 1,728,632</u>

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets depreciated				
Buildings	\$ 4,069,096	\$ 16,000	\$ -	\$ 4,085,096
Machinery and equipment	4,353,577	417,949	245,386	4,526,140
Infrastructure	<u>39,847,937</u>	<u>2,247,685</u>	<u>-</u>	<u>42,095,622</u>
Total capital assets depreciated	<u>\$ 48,270,610</u>	<u>\$ 2,681,634</u>	<u>\$ 245,386</u>	<u>\$ 50,706,858</u>
Less: accumulated depreciation for				
Buildings	\$ 1,619,052	\$ 103,681	\$ -	\$ 1,722,733
Machinery and equipment	2,825,750	293,839	160,882	2,958,707
Infrastructure	<u>8,843,551</u>	<u>827,069</u>	<u>-</u>	<u>9,670,620</u>
Total accumulated depreciation	<u>\$ 13,288,353</u>	<u>\$ 1,224,589</u>	<u>\$ 160,882</u>	<u>\$ 14,352,060</u>
Total capital assets depreciated, net	<u>\$ 34,982,257</u>	<u>\$ 1,457,045</u>	<u>\$ 84,504</u>	<u>\$ 36,354,798</u>
Governmental Activities Capital Assets, Net	<u>\$ 37,180,213</u>	<u>\$ 2,175,376</u>	<u>\$ 1,272,159</u>	<u>\$ 38,083,430</u>

Business-Type Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	<u>\$ 163,882</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 163,882</u>
Capital assets depreciated				
Buildings	\$ 23,700	\$ -	\$ -	\$ 23,700
Machinery and equipment	<u>425,095</u>	<u>184,585</u>	<u>146,713</u>	<u>462,967</u>
Total capital assets depreciated	<u>\$ 448,795</u>	<u>\$ 184,585</u>	<u>\$ 146,713</u>	<u>\$ 486,667</u>
Less: accumulated depreciation for				
Buildings	\$ 16,656	\$ 790	\$ -	\$ 17,446
Machinery and equipment	<u>297,560</u>	<u>43,077</u>	<u>146,713</u>	<u>193,924</u>
Total accumulated depreciation	<u>\$ 314,216</u>	<u>\$ 43,867</u>	<u>\$ 146,713</u>	<u>\$ 211,370</u>
Total capital assets depreciated, net	<u>\$ 134,579</u>	<u>\$ 140,718</u>	<u>\$ -</u>	<u>\$ 275,297</u>
Business-Type Activities Capital Assets, Net	<u>\$ 298,461</u>	<u>\$ 140,718</u>	<u>\$ -</u>	<u>\$ 439,179</u>

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

The County's fiscal year 2006 capital budget called for it to spend \$1,860,000 on highway and bridge construction and \$377,505 on road and bridge equipment purchases, all to be financed with resources on hand in existing County funds. For the other projects, it used resources on hand in the County's Road and Bridge Special Revenue Fund.

Debt

At the end of the current fiscal year, the County had total outstanding debt of \$7,356,971, versus \$7,988,939 last year--a decrease of 7.91 percent--as shown in Table 5.

Table 5
Changes in Outstanding Debt During 2006

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)	\$ 190,000	\$ -	\$ 190,000	\$ -	\$ -
Tax increment (Debt Service)	385,000	-	190,000	195,000	195,000
Special assessment debt with government commitment (Ditch)	4,030,000	-	150,000	3,880,000	1,980,000
Less: unamortized discount	<u>(30,842)</u>	<u>-</u>	<u>(2,998)</u>	<u>(27,844)</u>	<u>(2,998)</u>
Total bonds payable	\$ 4,574,158	\$ -	\$ 527,002	\$ 4,047,156	\$ 2,172,002
Loans payable	1,231,005	222,574	105,039	1,348,540	196,108
Capital lease	82,950	-	16,056	66,894	16,056
Compensated absences	<u>521,561</u>	<u>23,847</u>	<u>-</u>	<u>545,408</u>	<u>26,943</u>
Governmental Activities Long-Term Liabilities	<u>\$ 6,409,674</u>	<u>\$ 246,421</u>	<u>\$ 648,097</u>	<u>\$ 6,007,998</u>	<u>\$ 2,411,109</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	\$ 375,000	\$ -	\$ 150,000	\$ 225,000	\$ 75,000
Less: unamortized discount	<u>(3,723)</u>	<u>-</u>	<u>(1,241)</u>	<u>(2,482)</u>	<u>(1,241)</u>
Total bonds payable	\$ 371,277	\$ -	\$ 148,759	\$ 222,518	\$ 73,759
Estimated liability for landfill closure and postclosure care	1,195,485	-	83,138	1,112,347	-
Compensated absences	<u>12,503</u>	<u>1,605</u>	<u>-</u>	<u>14,108</u>	<u>-</u>
Business-Type Activities Long-Term Liabilities	<u>\$ 1,579,265</u>	<u>\$ 1,605</u>	<u>\$ 231,897</u>	<u>\$ 1,348,973</u>	<u>\$ 73,759</u>

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 (\$1,197,273,400) in the county. The County's outstanding net debt (\$7,290,077) 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 \$139,342 outstanding at year-end, compared with \$73,011 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 2007 budget, tax rates, and fees that will be charged for the business-type activities.

- Cottonwood County is anticipating no reduction of state aids to local governments. The County will be able to maintain a stable service environment if no state reductions are implemented.
- County General Fund expenditures for 2007 are budgeted to increase 2.8 percent from 2006.
- Property taxes levied have increased 5.234 percent for 2007.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2006**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Cash and pooled investments	\$ 9,905,643	\$ 684,494	\$ 10,590,137
Receivables - net	3,961,064	40,005	4,001,069
Internal balances	1,101	(1,101)	-
Inventories	156,240	-	156,240
Prepaid items	18,099	-	18,099
Restricted assets			
Cash and pooled investments	-	1,425,602	1,425,602
Taxes receivable - prior	-	1,082	1,082
Deferred charges	25,858	-	25,858
Capital assets			
Non-depreciable capital assets	1,728,632	163,882	1,892,514
Depreciable capital assets - net of accumulated depreciation	36,354,798	275,297	36,630,095
Total Assets	\$ 52,151,435	\$ 2,589,261	\$ 54,740,696
<u>Liabilities</u>			
Accounts payable and other current liabilities	\$ 567,292	\$ 6,885	\$ 574,177
Accrued interest payable	69,800	-	69,800
Long-term liabilities			
Due within one year	2,414,107	73,759	2,487,866
Due in more than one year	3,593,891	1,275,214	4,869,105
Total Liabilities	\$ 6,645,090	\$ 1,355,858	\$ 8,000,948
<u>Net Assets</u>			
Invested in capital assets - net of related debt	\$ 38,016,536	\$ 439,179	\$ 38,455,715
Restricted for			
Public safety	164,273	-	164,273
Human services	7,810	-	7,810
Highways and streets	761,515	-	761,515
Debt service	1,841,855	4,318	1,846,173
Postclosure	-	1,422,366	1,422,366
Other purposes	178,155	-	178,155
Unrestricted	4,536,201	(632,460)	3,903,741
Total Net Assets	\$ 45,506,345	\$ 1,233,403	\$ 46,739,748

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Expenses	Fees, Charges, Fines, and Other
Functions/Programs		
Governmental activities		
General government	\$ 2,698,476	\$ 284,137
Public safety	1,602,823	74,178
Highways and streets	2,846,176	85,870
Sanitation	203,427	201,550
Human services	4,498,738	406,474
Health	110,244	-
Culture and recreation	212,387	32,278
Conservation of natural resources	844,722	404,791
Interest	187,223	-
Administrative charges	1,328	-
	\$ 13,205,544	\$ 1,489,278
Business-type activities		
Landfill	236,905	399,521
	\$ 13,442,449	\$ 1,888,799

General Revenues

Property taxes
Mortgage registry and deed 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

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
\$ 368,204	\$ 6,080	\$ (2,040,055)	\$ -	\$ (2,040,055)
174,773	-	(1,353,872)	-	(1,353,872)
1,368,621	1,782,507	390,822	-	390,822
49,079	-	47,202	-	47,202
2,306,440	-	(1,785,824)	-	(1,785,824)
-	-	(110,244)	-	(110,244)
35,690	-	(144,419)	-	(144,419)
140,960	-	(298,971)	-	(298,971)
-	-	(187,223)	-	(187,223)
-	-	(1,328)	-	(1,328)
\$ 4,443,767	\$ 1,788,587	\$ (5,483,912)	\$ -	\$ (5,483,912)
9,787	-	-	172,403	172,403
\$ 4,453,554	\$ 1,788,587	\$ (5,483,912)	\$ 172,403	\$ (5,311,509)
		\$ 5,167,241	\$ 86,882	\$ 5,254,123
		5,276	-	5,276
		1,538,620	-	1,538,620
		87,348	-	87,348
		429,550	-	429,550
		163,506	-	163,506
		(70,828)	70,828	-
		\$ 7,320,713	\$ 157,710	\$ 7,478,423
		\$ 1,836,801	\$ 330,113	\$ 2,166,914
		43,669,544	903,290	44,572,834
		\$ 45,506,345	\$ 1,233,403	\$ 46,739,748

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 5,929,110	\$ 598,618
Petty cash and change funds	3,000	-
Undistributed cash in agency funds	101,854	32,486
Cash with escrow agent	-	-
Taxes receivable		
Prior	29,426	10,733
Special assessments receivable		
Prior	30,470	-
Noncurrent	941,282	-
Accounts receivable	22,926	-
Accrued interest receivable	107,349	-
Loans receivable - net	35,000	-
Due from other funds	1,030	3,258
Due from other governments	31,862	949,891
Inventories	-	156,240
Advances to other funds	68,233	-
Prepaid items	18,099	-
	\$ 7,319,641	\$ 1,751,226
Total Assets	\$ 7,319,641	\$ 1,751,226

EXHIBIT 3

Family Services	Ditch	Building	Debt Service	Total Governmental Funds
\$ 607,843	\$ 541,442	\$ 186,038	\$ 9,542	\$ 7,872,593
-	-	-	-	3,000
57,303	4,432	1,662	-	197,737
-	1,832,313	-	-	1,832,313
18,761	-	508	-	59,428
-	187	-	-	30,657
-	1,299,798	-	-	2,241,080
52,006	-	-	-	74,932
-	-	-	-	107,349
-	-	-	-	35,000
-	-	-	-	4,288
430,865	-	-	-	1,412,618
-	-	-	-	156,240
-	-	-	-	68,233
-	-	-	-	18,099
\$ 1,166,778	\$ 3,678,172	\$ 188,208	\$ 9,542	\$ 14,113,567

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 52,567	\$ 10,691
Salaries payable	99,333	32,666
Contracts payable	-	27,968
Due to other funds	2,157	-
Due to other governments	77,743	3,678
Deferred revenue - unavailable	1,080,959	948,256
Advances from other funds	-	-
	\$ 1,312,759	\$ 1,023,259
Fund Balances		
Reserved for		
Encumbrances	\$ 211,490	\$ 144,822
Inventories	-	156,240
Advances to other funds	68,233	-
Sheriff's contingency	8,284	-
Debt service	-	-
Enhanced 911	155,989	-
Loans receivable - net	35,000	-
Prepaid items	18,099	-
Missing heirs	3,425	-
Law library	35,786	-
Highway allotments	-	13,915
Recorder's technology fund	21,175	-
Recorder's compliance fund	47,692	-
Canteen fund	10,490	-
Transportation	14,899	-
Cash with escrow agent	-	-
Septic/sewer loans	450,004	-
Election equipment	79,954	-
Unspent grant monies	25,909	-
Unreserved		
Undesignated	4,820,453	412,990
	\$ 6,006,882	\$ 727,967
Total Liabilities and Fund Balances	\$ 7,319,641	\$ 1,751,226

EXHIBIT 3
(Continued)

<u>Family Services</u>	<u>Ditch</u>	<u>Building</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
\$ 216,161	\$ 7,346	\$ -	\$ -	\$ 286,765
11,353	-	-	-	143,352
-	-	-	-	27,968
1,030	-	-	-	3,187
26,217	1,569	-	-	109,207
18,761	1,299,985	508	-	3,348,469
-	68,233	-	-	68,233
<u>\$ 273,522</u>	<u>\$ 1,377,133</u>	<u>\$ 508</u>	<u>\$ -</u>	<u>\$ 3,987,181</u>
\$ -	\$ -	\$ -	\$ -	\$ 356,312
-	-	-	-	156,240
-	-	-	-	68,233
-	-	-	-	8,284
-	-	-	9,542	9,542
-	-	-	-	155,989
-	-	-	-	35,000
-	-	-	-	18,099
-	-	-	-	3,425
-	-	-	-	35,786
-	-	-	-	13,915
-	-	-	-	21,175
-	-	-	-	47,692
-	-	-	-	10,490
-	-	-	-	14,899
-	1,832,313	-	-	1,832,313
-	-	-	-	450,004
-	-	-	-	79,954
7,810	-	-	-	33,719
<u>885,446</u>	<u>468,726</u>	<u>187,700</u>	<u>-</u>	<u>6,775,315</u>
<u>\$ 893,256</u>	<u>\$ 2,301,039</u>	<u>\$ 187,700</u>	<u>\$ 9,542</u>	<u>\$ 10,126,386</u>
<u>\$ 1,166,778</u>	<u>\$ 3,678,172</u>	<u>\$ 188,208</u>	<u>\$ 9,542</u>	<u>\$ 14,113,567</u>

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2006**

Fund balances - total governmental funds (Exhibit 3)	\$	10,126,386
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.		38,083,430
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		3,348,469
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	\$ (4,075,000)	
Capital leases	(66,894)	
Loans payable	(1,348,540)	
Compensated absences	(545,408)	
Accrued interest payable	(69,800)	
Unamortized discount on general obligation refunding bonds	27,844	
Deferred debt issuance charges	25,858	
	(6,051,940)	(6,051,940)
Net Assets of Governmental Activities (Exhibit 1)		<u>\$ 45,506,345</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	General	Road and Bridge
Revenues		
Taxes	\$ 2,490,635	\$ 871,875
Special assessments	395,473	-
Licenses and permits	11,973	-
Intergovernmental	2,104,017	3,327,829
Charges for services	317,507	39,951
Fines and forfeits	4,546	-
Investment earnings	286,692	-
Miscellaneous	176,159	38,303
	\$ 5,787,002	\$ 4,277,958
Expenditures		
Current		
General government	\$ 2,563,757	\$ -
Public safety	1,596,292	-
Highways and streets	-	3,560,618
Sanitation	232,175	-
Human services	-	-
Health	4,659	-
Culture and recreation	191,923	-
Conservation of natural resources	731,430	-
Intergovernmental	104,353	250,767
Debt service		
Principal	324,064	-
Interest	13,834	-
Administrative (fiscal) charges	431	-
	\$ 5,762,918	\$ 3,811,385
Excess of Revenues Over (Under) Expenditures	\$ 24,084	\$ 466,573
Other Financing Sources (Uses)		
Transfers in	\$ 302,165	\$ 4,442
Transfers out	(89,666)	-
Loans issued	222,574	-
Proceeds from sale of assets	-	8,500
	\$ 435,073	\$ 12,942
Net Change in Fund Balances	\$ 459,157	\$ 479,515
Fund Balances - January 1	5,547,725	245,701
Increase (decrease) in reserved for inventories	-	2,751
Fund Balances - December 31	\$ 6,006,882	\$ 727,967

EXHIBIT 5

Family Services	Ditch	Building	Debt Service	Total Governmental Funds
\$ 1,595,330	\$ -	\$ 44,579	\$ 169,935	\$ 5,172,354
-	224,750	-	-	620,223
-	-	-	-	11,973
2,479,324	-	4,893	19,084	7,935,147
57,083	-	-	-	414,541
-	-	-	-	4,546
-	63,077	-	-	349,769
349,391	-	73,329	-	637,182
\$ 4,481,128	\$ 287,827	\$ 122,801	\$ 189,019	\$ 15,145,735
\$ -	\$ -	\$ 116,185	\$ -	\$ 2,679,942
-	-	-	-	1,596,292
-	-	-	-	3,560,618
-	-	-	-	232,175
4,440,310	-	-	-	4,440,310
-	-	-	-	4,659
-	-	-	-	191,923
-	93,676	-	-	825,106
-	-	-	-	355,120
-	150,000	-	190,000	664,064
-	169,113	-	4,750	187,697
-	897	-	-	1,328
\$ 4,440,310	\$ 413,686	\$ 116,185	\$ 194,750	\$ 14,739,234
\$ 40,818	\$ (125,859)	\$ 6,616	\$ (5,731)	\$ 406,501
\$ -	\$ 1,896	\$ -	\$ -	\$ 308,503
-	-	-	(289,665)	(379,331)
-	-	-	-	222,574
-	-	-	-	8,500
\$ -	\$ 1,896	\$ -	\$ (289,665)	\$ 160,246
\$ 40,818	\$ (123,963)	\$ 6,616	\$ (295,396)	\$ 566,747
852,438	2,425,002	181,084	304,938	9,556,888
-	-	-	-	2,751
\$ 893,256	\$ 2,301,039	\$ 187,700	\$ 9,542	\$ 10,126,386

**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, 2006**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 566,747

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

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

Deferred revenue - December 31	\$ 3,348,469	
Deferred revenue - January 1	(3,389,531)	(41,062)

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. In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net book value of the assets sold.

Expenditures for general capital assets	\$ 2,212,310	
Current year depreciation	(1,224,589)	
Net book value of assets disposed of	(84,504)	903,217

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.

Debt issued		
Septic loans		(222,574)
Principal repayments		
General obligation bonds	\$ 530,000	
Capital lease	16,056	
Loans payable	105,039	651,095

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	\$ 9,038	
Amortization of discounts and deferred issuance charges	(8,564)	
Change in compensated absences	(23,847)	
Change in inventories	2,751	(20,622)

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 1,836,801

PROPRIETARY FUNDS

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FUND NET ASSETS
PROPRIETARY FUND
DECEMBER 31, 2006**

	<u>Landfill Enterprise Fund</u>
<u>Assets</u>	
Current assets	
Cash and pooled investments	\$ 684,494
Accounts receivable - net	39,763
Due from other funds	242
Restricted assets	
Cash and pooled investments	1,422,366
Undistributed cash in agency funds	3,236
Taxes receivable	
Prior	1,082
Total current assets	\$ 2,151,183
Noncurrent assets	
Capital assets	
Nondepreciable	\$ 163,882
Depreciable - net	275,297
Total noncurrent assets	\$ 439,179
Total Assets	\$ 2,590,362
<u>Liabilities</u>	
Current liabilities	
Accounts payable	\$ 4,501
Salaries payable	2,384
Due to other funds	1,101
General obligation bonds payable - current	73,759
Total current liabilities	\$ 81,745
Noncurrent liabilities	
Compensated absences payable - long-term	\$ 14,108
Estimated liability for landfill closure/postclosure	1,112,347
General obligation bonds payable - long-term	148,759
Total noncurrent liabilities	\$ 1,275,214
Total Liabilities	\$ 1,356,959
<u>Net Assets</u>	
Invested in capital assets	\$ 439,179
Restricted for postclosure	1,422,366
Restricted for debt service	4,318
Unrestricted	(632,460)
Total Net Assets	\$ 1,233,403

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Landfill Enterprise Fund</u>
Operating Revenues	
Charges for services	\$ 390,793
Miscellaneous	8,728
	\$ 399,521
Operating Expenses	
Personal services	\$ 92,185
Professional services	10,600
Other services and charges	157,514
Utilities	5,511
Depreciation	43,867
Landfill closure and postclosure costs	(83,138)
	\$ 226,539
Operating Income (Loss)	\$ 172,982
Nonoperating Revenues (Expenses)	
Property taxes	\$ 86,882
Intergovernmental	9,787
Interest expense	(10,366)
	\$ 86,303
Income (Loss) Before Transfers	\$ 259,285
Transfers in	83,328
Transfers out	(12,500)
	\$ 330,113
Change in Net Assets	\$ 330,113
Net Assets - January 1	903,290
Net Assets - December 31	\$ 1,233,403

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2006
Increase (Decrease) in Cash and Cash Equivalents**

	<u>Landfill Enterprise Fund</u>
Cash Flows from Operating Activities	
Receipts from customers and users	\$ 388,044
Payments to suppliers	(171,231)
Payments to employees	(90,588)
Net cash provided by (used in) operating activities	<u>\$ 126,225</u>
Cash Flows from Noncapital Financing Activities	
Property taxes	\$ 86,935
Intergovernmental	9,787
Transfers in	83,328
Transfers out	(12,501)
Net cash provided by (used in) noncapital financing activities	<u>\$ 167,549</u>
Cash Flows from Capital and Related Financing Activities	
Principal paid on long-term debt	\$ (150,000)
Interest paid on long-term debt	(9,125)
Purchase of capital assets	(184,585)
Net cash provided by (used in) capital and related financing activities	<u>\$ (343,710)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ (49,936)</u>
Cash and Cash Equivalents - January 1	<u>2,160,032</u>
Cash and Cash Equivalents - December 31	<u><u>\$ 2,110,096</u></u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets - Exhibit 7	
Cash and pooled investments	\$ 684,494
Restricted cash and pooled investments	1,422,366
Undistributed cash in agency funds	3,236
Total Cash and Cash Equivalents - December 31	<u><u>\$ 2,110,096</u></u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2006
Increase (Decrease) in Cash and Cash Equivalents**

	<u>Landfill Enterprise Fund</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	\$ 172,982
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 43,867
(Increase) decrease in accounts receivable	(11,234)
(Increase) decrease in due from other governments	(242)
Increase (decrease) in accounts payable	1,292
Increase (decrease) in salaries payable	(8)
Increase (decrease) in due to governmental funds	1,101
Increase (decrease) in landfill closure costs	(83,138)
Increase (decrease) in compensated absences payable	1,605
Total adjustments	\$ (46,757)
Net Cash Provided by (Used in) Operating Activities	\$ 126,225

FIDUCIARY FUNDS

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2006**

	Investment Trust	Agency
<u>Assets</u>		
Cash and pooled investments	\$ 206,809	\$ 1,047,186
Accrued interest receivable	9,343	-
Total Assets	\$ 216,152	\$ 1,047,186
<u>Liabilities</u>		
Due to other governments	-	\$ 1,047,816
<u>Net Assets</u>		
Net assets, held in trust for pool participant	\$ 216,152	

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

EXHIBIT 11

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Investment Trust
<u>Additions</u>	
Contributions from participant	\$ 132,388
Investment income	9,343
Total Additions	\$ 141,731
<u>Deductions</u>	
Distributions to participants	143,813
Change in Net Assets	\$ (2,082)
Net Assets - January 1	218,234
Net Assets - December 31	\$ 216,152

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006**

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2006. 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 joint ventures described in Note 7.B. The County also participates in a jointly-governed organization described in Note 7.C.

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

2. Fund Financial Statements

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

**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 as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on 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 then unrestricted resources as 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, 2006, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments of governmental and fiduciary funds 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 2006 were \$367,275.

Included in total cash and pooled investments are the assets held for the Cottonwood County Family Services Collaborative in an external investment pool. For the purposes of financial reporting, the Family Services Collaborative's portion of the County's pool of cash and investments is reported as an investment trust fund. Assets in the pool are reported at fair value based on quoted market prices. The pool is not subject to regulatory oversight, and the fair value of the position in the pool is the same as the pool shares. Fair value amounts are determined at year-end. The County has not provided or obtained any legally binding guarantees to support the value of the pool.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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.

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

4. Special Assessments Receivable

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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.

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.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

7. Capital Assets (Continued)

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

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

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

8. Compensated Absences

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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.

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.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

The following funds had expenditures in excess of budget for the year ended December 31, 2006:

<u>Fund</u>	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General	\$ 5,762,918	\$ 4,797,157	\$ 965,761
Family Services Special Revenue	4,440,310	4,280,506	159,804
Ditch Special Revenue	413,686	77,958	335,728
Building Special Revenue	116,185	32,000	84,185

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, 7 of 97 drainage systems have deficit unreserved, undesignated fund balances at December 31, 2006. Although this method results in numbers not considered to be in conformity with 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	\$ 603,090
Account balance deficits	<u>(591,049)</u>
Total	<u>\$ 12,041</u>

The Ditch Special Revenue Fund's deficit will be eliminated with future special assessment levies against benefited properties. The County Ditch Special Revenue Fund had a fund balance of \$2,301,039 when reported on the modified accrual basis.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Reconciliation of the County's total cash and investments to the basic financial statements follows:

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 9,905,643
Business-type activities	
Cash and pooled investments	684,494
Cash and pooled investments - restricted assets	1,425,602
Statement of fiduciary net assets	
Cash and pooled investments	<u>1,253,995</u>
 Total Cash and Investments	 <u>\$ 13,269,734</u>

a. Deposits

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

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County has adopted a policy for custodial credit risk by obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law. As of December 31, 2006, \$95,000 of the County's bank balance of \$12,117,071 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 95,000
Uninsured and collateralized with securities held by the pledging financial institution's trust department not in the County's name	<u>-</u>
Total	<u>\$ 95,000</u>

b. Investments

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**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

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

At December 31, 2006, the County had the following investments:

	Fair Value	Less Than 1 Year	1-2 Years
Cash with escrow agent			
U.S. Treasury SLGS	\$ 1,832,313	\$ 1,832,313	\$ -

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County has adopted a policy for custodial credit risk by permitting brokers that obtained investments for the County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. At December 31, 2006, \$1,832,313 of cash with escrow agent held at Northland Trust Services was subject to custodial credit risk.

Concentration of Credit Risk

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

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County's cash and investment balances at December 31, 2006, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Cash with escrow agent					
U.S. Treasury securities	N/A	N/A	45.5%	02/01/2007	\$ 1,832,313
Negotiable certificates of deposit	N/A	N/A	N/A	Various	4,491,979
Total investments					\$ 6,324,292
Checking					2,302,679
Savings					1,867,763
Certificates of deposit					2,772,000
Petty cash					3,000
Total Cash and Investments					\$ 13,269,734

N/A - Not Applicable

2. Receivables

Receivables as of December 31, 2006, 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	\$ 59,428	\$ -
Special assessments	2,271,737	2,241,080
Accounts	74,932	-
Interest	107,349	-
Loans	35,000	-
Due from other governments	1,412,618	-
Total Governmental Activities	\$ 3,961,064	\$ 2,241,080

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Business-Type Activities		
Taxes	\$ 1,082	\$ -
Accounts	40,005	-
Total Business-Type Activities	\$ 41,087	\$ -

Details on Loans Receivable

	Total Receivables
Loans Receivable	
Seed Capital Loan Program	
D&L Welding & Machine	\$ 16,416
Windom Economic Development	25,000
Sew Much More	1,598
Big Bend Snowriders	10,000
Total	\$ 53,014
Less: allowance for uncollectible accounts	(18,014)
Total Loans Receivable	\$ 35,000

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 2006, Cottonwood County made a \$10,000 interest-free loan to the Big Bend Snowriders. No schedule of repayment was established.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 311,551	\$ -	\$ -	\$ 311,551
Right-of-way	697,413	136	-	697,549
Construction in progress	1,188,992	718,195	1,187,655	719,532
Total capital assets not depreciated	\$ 2,197,956	\$ 718,331	\$ 1,187,655	\$ 1,728,632
Capital assets depreciated				
Buildings	\$ 4,069,096	\$ 16,000	\$ -	\$ 4,085,096
Machinery and equipment	4,353,577	417,949	245,386	4,526,140
Infrastructure	39,847,937	2,247,685	-	42,095,622
Total capital assets depreciated	\$ 48,270,610	\$ 2,681,634	\$ 245,386	\$ 50,706,858
Less: accumulated depreciation for				
Buildings	\$ 1,619,052	\$ 103,681	\$ -	\$ 1,722,733
Machinery and equipment	2,825,750	293,839	160,882	2,958,707
Infrastructure	8,843,551	827,069	-	9,670,620
Total accumulated depreciation	\$ 13,288,353	\$ 1,224,589	\$ 160,882	\$ 14,352,060
Total capital assets depreciated, net	\$ 34,982,257	\$ 1,457,045	\$ 84,504	\$ 36,354,798
Governmental Activities Capital Assets, Net	\$ 37,180,213	\$ 2,175,376	\$ 1,272,159	\$ 38,083,430

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	184,585	146,713	462,967
Total capital assets depreciated	\$ 448,795	\$ 184,585	\$ 146,713	\$ 486,667

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Business-Type Activities (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	\$ 16,656	\$ 790	\$ -	\$ 17,446
Machinery and equipment	297,560	43,077	146,713	193,924
Total accumulated depreciation	\$ 314,216	\$ 43,867	\$ 146,713	\$ 211,370
Total capital assets depreciated, net	\$ 134,579	\$ 140,718	\$ -	\$ 275,297
Business-Type Activities				
Capital Assets, Net	\$ 298,461	\$ 140,718	\$ -	\$ 439,179

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

Governmental Activities		
General government	\$ 53,739	
Public safety	20,380	
Highways and streets, including depreciation of infrastructure assets	1,086,674	
Sanitation	1,920	
Human services	35,197	
Health	1,232	
Culture and recreation	23,260	
Conservation of natural resources	2,187	
Total Depreciation Expense - Governmental Activities	\$ 1,224,589	
Business-Type Activities		
Landfill	\$ 43,867	

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2006, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Family Services	\$ 1,030
Road and Bridge	General	2,157
Road and Bridge	Landfill Enterprise	1,101
Total Due To/From Other Funds		\$ 4,288

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

2. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General	Ditch	\$ 68,233

The advance is to provide working capital to a ditch system with low reserves and current operating costs in excess of its revenues. This balance will be paid from future ditch special assessments.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

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

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2006, consisted of the following:

Transfers to General Fund from Landfill Fund	\$	12,500	Provide funds for recycling
Transfer to Road and Bridge Fund from General Fund		4,442	Provide funding
Transfer to Ditch Fund from General Fund		1,896	Provide funding
Transfer to General Fund from Debt Service Fund		289,665	Provide funding
Transfers to Landfill Fund from General Fund		83,328	Provide funding
Total Interfund Transfers	\$	391,831	

C. Liabilities

1. Payables

Payables at December 31, 2006, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	\$ 286,765	\$ 4,501
Salaries	143,352	2,384
Contracts	27,968	-
Due to other governments	109,207	-
Total Payables	\$ 567,292	\$ 6,885

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Construction Commitments

The government has active construction projects as of December 31, 2006. The projects include the following:

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Governmental Activities		
Roads and bridges	\$ 531,391	\$ -
County vehicle	-	24,754
Recorder's equipment	-	23,787
Sheriff's equipment	-	3,950
GIS system development	40,000	158,999

3. Postemployment 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 and, as of February 10, 2004, the maximum was reduced to four years. As of January 1, 2004, the maximum monthly contribution was set at \$720.

This post-service benefit is funded on a pay-as-you-go basis. The County had eight elected officials who were eligible for this benefit in 2006. The total cost for this program totaled \$68,556 in 2006.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Capital Lease

The County has entered into a lease agreement with Alfa-Wireless for financing the upgrade to a 911 Motorola Gold Console in the law enforcement center. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of their future minimum lease payments as of the inception date. The lease is as follows at December 31, 2006:

<u>Capital Lease</u>	<u>Final Maturity</u>	<u>Installment Amount</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2006</u>
2005 Motorola Gold Console	2010	\$1,334	0.12	\$ 82,950	\$ 66,894

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2006, were as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2007	\$ 16,590
2008	16,590
2009	16,590
2010	18,115
Total minimum lease payments	\$ 67,885
Less: amount representing interest	(991)
Present Value of Minimum Lease Payments	\$ 66,894

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Long-Term Debt

Governmental Activities

Bonds Payable

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Average Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2006</u>
General obligation bonds					
2004 G.O. Tax Increment Refunding Bonds	2007	\$190,000 - \$195,000	3.092	<u>\$ 385,000</u>	\$ 195,000
Less: unamortized discount					<u>(514)</u>
Total General Obligation Bonds, Net					<u>\$ 194,486</u>
Special assessment bonds with government commitment					
1998 G.O. Drainage Bonds	2020	\$10,000 - \$30,000	4.857	\$ 2,510,000	\$ 1,705,000
2005 G.O. Drainage Crossover Refunding Bonds	2020	\$110,000 - \$175,000	3.5586	1,900,000	1,900,000
2000 G.O. Drainage Bonds	2016	\$15,000 - \$35,000	5.2667	<u>365,000</u>	<u>275,000</u>
Total special assessment bonds with government commitment				<u>\$ 4,775,000</u>	\$ 3,880,000
Less: unamortized discount					<u>(27,330)</u>
Total Governmental Activities, Net					<u>\$ 3,852,670</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

5. Long-Term Debt

Governmental Activities (Continued)

Loans Payable

In 1996, the County agreed to act as loan and project sponsor for a project loan agreement made under the Clean Water Partnership Law with the State of Minnesota through the Minnesota Pollution Control Agency (PCA) and the Brown-Nicollet-Cottonwood Project Joint Powers Board. The County is required to repay these funds to the PCA. In 1998, additional Ag Well loan funds were received through the Minnesota Department of Agriculture. The loan terms and repayment are similar to those received through the PCA. The County is required to repay the funds to the Minnesota Department of Agriculture. In 2000, the County entered into the Watonwan Watershed Project loan program with \$370,000 available for site-specific groundwater improvement projects. All loans are secured by special assessments placed on the individual parcels requesting repair of a failing system. Loan payments are reported in the General Fund.

Business-Type Activities

Bonds Payable

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Average Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2006</u>
General obligation bonds Series 2004 G.O. Landfill Bonds	2009	\$70,000 - \$75,000	2.8688	<u>\$ 365,000</u>	\$ 225,000
Less: unamortized discount					<u>(2,482)</u>
Total General Obligation Landfill Bonds, Net					<u>\$ 222,518</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Debt Service Requirements

Debt service requirements at December 31, 2006, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2007	\$ 195,000	\$ 3,169	\$ 1,980,000	\$ 80,591
2008	-	-	170,000	61,080
2009	-	-	175,000	56,895
2010	-	-	160,000	52,468
2011	-	-	155,000	47,903
2012 - 2016	-	-	780,000	161,835
2017 - 2020	-	-	460,000	36,668
Total	<u>\$ 195,000</u>	<u>\$ 3,169</u>	<u>\$ 3,880,000</u>	<u>\$ 497,440</u>

Year Ending December 31	Loans Payable	
	Principal	Interest
2007	\$ 193,747	\$ 10,621
2008	171,002	12,580
2009	143,118	11,115
2010	110,268	9,622
2011	111,953	8,098
2012 - 2016	501,432	18,424
2017 - 2021	94,060	178
2022 - 2026	9,203	-
Total	<u>\$ 1,334,783</u>	<u>\$ 70,638</u>

Clean water loans in the amount of \$13,757 are not included in the debt service requirements because a fixed repayment schedule is not available.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

6. Debt Service Requirements (Continued)

Business-Type Activities

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2007	\$ 75,000	\$ 5,681
2008	75,000	3,563
2009	75,000	1,219
Total	<u>\$ 225,000</u>	<u>\$ 10,463</u>

7. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable (fund liquidating the debt)					
General obligation bonds (General)	\$ 190,000	\$ -	\$ 190,000	\$ -	\$ -
Tax increment (Debt Service)	385,000	-	190,000	195,000	195,000
Special assessment debt with government commitment (Ditch)	4,030,000	-	150,000	3,880,000	1,980,000
Less: unamortized discount	(30,842)	-	(2,998)	(27,844)	(2,998)
Total bonds payable	<u>\$ 4,574,158</u>	<u>\$ -</u>	<u>\$ 527,002</u>	<u>\$ 4,047,156</u>	<u>\$ 2,172,002</u>
Loans payable	1,231,005	222,574	105,039	1,348,540	196,108
Capital lease	82,950	-	16,056	66,894	16,056
Compensated absences	521,561	23,847	-	545,408	26,943
Governmental Activities Long-Term Liabilities	<u>\$ 6,409,674</u>	<u>\$ 246,421</u>	<u>\$ 648,097</u>	<u>\$ 6,007,998</u>	<u>\$ 2,411,109</u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

7. Changes in Long-Term Liabilities (Continued)

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 375,000	\$ -	\$ 150,000	\$ 225,000	\$ 75,000
Less: unamortized discount	(3,723)	-	(1,241)	(2,482)	(1,241)
Total bonds payable	\$ 371,277	\$ -	\$ 148,759	\$ 222,518	\$ 73,759
Estimated liability for landfill closure and postclosure care	1,195,485	-	83,138	1,112,347	-
Compensated absences	12,503	1,605	-	14,108	-
Business-Type Activities Long-Term Liabilities	<u>\$ 1,579,265</u>	<u>\$ 1,605</u>	<u>\$ 231,897</u>	<u>\$ 1,348,973</u>	<u>\$ 73,759</u>

8. 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:

General Obligation Drainage Bonds, Series 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.

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.

The proceeds from the bonds were placed with an escrow agent in an irrevocable trust from which U.S. Treasury securities were purchased. The County is responsible for the principal and interest on the original issue through February 1, 2007. The refunded bonds will be called and paid by the escrow agent on February 1, 2007. The escrow agent will pay the interest due on the 2004 bonds

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

8. Advance Crossover Refunding of Debt (Continued)

through February 1, 2007; thereafter, the County will be responsible for the payment of debt service. The principal balance of both the original issues and the refunding issue will be shown on the balance sheet until the call date of the refunded bonds, at which time the 1998 bonds and the Series 2000A bonds will be paid, and the liability for those bonds will be removed.

The General Obligation Drainage Crossover Refunding Bonds, Series 2005A, were issued at a discount of \$32,300 and, after paying debt issuance costs of \$26,885, the net proceeds were \$1,840,815. The County deposited \$1,756 of excess proceeds into the Debt Service Fund for future debt payments.

As a result of the advance crossover refunding, the County reduced its total debt service requirements by \$100,651; the remaining \$1,734,346 of bond proceeds were used to purchase U.S. government securities, and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments on the General Obligation Drainage Crossover Refunding Bonds, Series 2005A, until February 1, 2007, at which time the refunded bonds will be paid off. The sale resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt service) of \$75,192.

4. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the County Board reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$1,112,347 landfill closure and postclosure care liability at December 31, 2006, represents the cumulative amount reported to date based on the use of 58 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$817,120 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2006. The Board expects to close the landfill in 2035. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

4. Landfill Closure and Postclosure Care Costs (Continued)

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, 2006, the County has in restricted assets \$1,422,366 for these purposes. Cottonwood County expects that future inflation costs will be paid from investment earnings on these annual contributions. However, if investment earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws and regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

5. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters 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 MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$390,000 per claim in 2006 and at \$400,000 per claim in 2007. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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 (\$1,662,795 aggregate) for the health plan. At December 31, 2006, the amount of the County's liability was \$139,342. This liability is the County's best estimate based on available information.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

5. Risk Management (Continued)

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:

	Year Ended December 31	
	2005	2006
Unpaid claims, beginning of fiscal year	\$ 98,353	\$ 73,011
Incurred claims (including IBNRs)	1,362,366	1,729,126
Claims payments	(1,387,708)	(1,662,795)
Unpaid Claims, End of Fiscal Year	\$ 73,011	\$ 139,342

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.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

6. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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.

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.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

6. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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 internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

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 were required to contribute 9.10 and 5.50 percent, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan increased in 2007 to 5.75 percent. Public Employees Police and Fire Fund members were required to contribute 7.00 percent of their annual covered salary in 2006. That rate increased to 7.80 percent in 2007. 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 in 2006 and 2007:

	<u>2006</u>	<u>2007</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.00	6.00
Public Employees Police and Fire Fund	10.50	11.70
Public Employees Correctional Fund	8.75	8.75

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

6. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County's contributions for the years ending December 31, 2006, 2005, and 2004, 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
2006	\$ 194,313	\$ 36,320	\$ 29,632
2005	171,952	37,364	28,009
2004	162,586	32,611	23,920

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

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 withdrawal.

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, 2006, 2005, and 2004, were \$2,305, \$2,032, and \$1,710, respectively, equal to the contractually required contributions for each year as set by state statute.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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.

B. 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 2006, Cottonwood County contributed \$104,353 to the Health Services Board. For 2005, the Health Services Board had an increase in net assets of \$47,020 from operations. At December 31, 2005, total net assets were \$335,177 (the latest information available).

Complete financial statements for the Cottonwood-Jackson Community 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

B. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

The Consortium Board shall take actions and enter into such agreements as may be necessary to plan and develop within the 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 Consortium Board's annual financial report for the year ended December 31, 2005 (the latest information available):

Total assets	\$ 1,148,132
Total liabilities	497,546
Total equity	650,586
Total revenues	1,960,287
Total expenditures	1,671,076
Net increase to fund balance	289,211

The Consortium Board reported no long-term obligations at December 31, 2005.

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.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Red Rock Rural Water System (Continued)

The Red Rock Rural Water System is governed by a nine-member Board appointed for terms of three years by the District Court. 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, 2005 (the latest information available), were \$6,490,000, and notes payable were \$263,397. Fund balance was \$17,443,501.

A complete financial report of the Red Rock Rural Water System can be obtained at 305 West Whited Street, Jeffers, Minnesota 56145.

C. Jointly-Governed Organization

Cottonwood County, in conjunction with other governmental entities and various private organizations, has 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.

D. 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:	\$158,841
Captured Tax Capacity Retained by Authority:	\$157,824
Total G.O. Taxable Tax Increment Bonds Issued:	\$1,645,000
Amounts Redeemed:	\$1,450,000
Outstanding Bonds at December 31, 2006:	\$195,000

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.

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REQUIRED SUPPLEMENTARY INFORMATION

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,718,912	\$ 2,718,912	\$ 2,490,635	\$ (228,277)
Special assessments	183,287	183,287	395,473	212,186
Licenses and permits	5,500	5,500	11,973	6,473
Intergovernmental	1,514,139	1,514,139	2,104,017	589,878
Charges for services	248,243	248,243	317,507	69,264
Fines and forfeits	-	-	4,546	4,546
Investment earnings	183,150	183,150	286,692	103,542
Miscellaneous	160,050	160,050	176,159	16,109
Total Revenues	\$ 5,013,281	\$ 5,013,281	\$ 5,787,002	\$ 773,721
Expenditures				
Current				
General government				
Commissioners	\$ 240,513	\$ 240,513	\$ 267,017	\$ (26,504)
Courts	8,800	8,800	24,986	(16,186)
Law library	15,000	15,000	13,621	1,379
Auditor/treasurer	424,617	424,617	402,994	21,623
Assessor	227,992	227,992	215,075	12,917
Elections	48,948	48,948	196,787	(147,839)
Attorney	256,839	256,839	254,074	2,765
Recorder	166,002	166,002	198,972	(32,970)
Buildings and plant	88,693	88,693	88,847	(154)
Veterans service officer	91,958	91,958	85,174	6,784
Transit	113,853	113,853	175,947	(62,094)
Other general government	347,184	347,184	640,263	(293,079)
Total general government	\$ 2,030,399	\$ 2,030,399	\$ 2,563,757	\$ (533,358)
Public safety				
Sheriff	\$ 590,672	\$ 590,672	\$ 717,780	\$ (127,108)
Emergency services	66,037	70,037	32,259	37,778
Coroner	6,000	6,000	12,030	(6,030)
Safety program	3,923	3,923	3,700	223
Jail	672,587	672,587	713,484	(40,897)
Probation and parole	113,693	113,693	117,039	(3,346)
Total public safety	\$ 1,452,912	\$ 1,456,912	\$ 1,596,292	\$ (139,380)
Sanitation				
Recycling	\$ 228,028	\$ 228,028	\$ 232,175	\$ (4,147)

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Health				
Community health	\$ 1,900	\$ 1,900	\$ 4,659	\$ (2,759)
Culture and recreation				
Parks	\$ 82,489	\$ 82,489	\$ 88,524	\$ (6,035)
Minnesota trails	-	-	35,690	(35,690)
Regional library	57,049	67,049	67,709	(660)
Total culture and recreation	\$ 139,538	\$ 149,538	\$ 191,923	\$ (42,385)
Conservation of natural resources				
Extension	\$ 137,577	\$ 137,577	\$ 106,991	\$ 30,586
Soil and water conservation	91,505	91,505	90,081	1,424
Water quality loan program	-	-	250,635	(250,635)
Predator control	500	500	238	262
ISTS pilot project	60,000	60,000	18,118	41,882
Water planning	99,488	99,488	99,677	(189)
Des Moines River project	44,017	44,017	51,768	(7,751)
Environmental services	161,492	161,492	113,922	47,570
Total conservation of natural resources	\$ 594,579	\$ 594,579	\$ 731,430	\$ (136,851)
Economic development				
Other	\$ 7,450	\$ 7,450	\$ -	\$ 7,450
Intergovernmental				
Health	\$ 116,978	\$ 116,978	\$ 104,353	\$ 12,625
Debt service				
Principal	\$ 202,000	\$ 202,000	\$ 324,064	\$ (122,064)
Interest	\$ 8,998	\$ 8,998	\$ 13,834	\$ (4,836)
Administrative (fiscal) charges	\$ 375	\$ 375	\$ 431	\$ (56)
Total Expenditures	\$ 4,783,157	\$ 4,797,157	\$ 5,762,918	\$ (965,761)
Excess of Revenues Over (Under) Expenditures	\$ 230,124	\$ 216,124	\$ 24,084	\$ (192,040)

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources (Uses)				
Transfers in	\$ 25,000	\$ 18,000	\$ 302,165	\$ 284,165
Transfers out	(47,000)	(47,000)	(89,666)	(42,666)
Loans issued	-	-	222,574	222,574
Total Other Financing Sources (Uses)	\$ (22,000)	\$ (29,000)	\$ 435,073	\$ 464,073
Net Change in Fund Balance	\$ 208,124	\$ 187,124	\$ 459,157	\$ 272,033
Fund Balance - January 1	5,547,725	5,547,725	5,547,725	-
Fund Balance - December 31	\$ 5,755,849	\$ 5,734,849	\$ 6,006,882	\$ 272,033

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 976,054	\$ 976,054	\$ 871,875	\$ (104,179)
Intergovernmental	3,258,623	3,258,623	3,327,829	69,206
Charges for services	3,600	3,600	39,951	36,351
Investment earnings	2,000	2,000	-	(2,000)
Miscellaneous	76,000	76,000	38,303	(37,697)
Total Revenues	\$ 4,316,277	\$ 4,316,277	\$ 4,277,958	\$ (38,319)
Expenditures				
Current				
Highways and streets				
Administration	\$ 480,141	\$ 480,141	\$ 222,289	\$ 257,852
Maintenance	1,112,903	1,112,903	1,033,916	78,987
Construction	1,709,163	1,709,163	1,460,754	248,409
Equipment and maintenance shops	1,061,246	1,061,246	843,659	217,587
Total highways and streets	\$ 4,363,453	\$ 4,363,453	\$ 3,560,618	\$ 802,835
Intergovernmental				
Highways and streets	-	-	250,767	(250,767)
Total Expenditures	\$ 4,363,453	\$ 4,363,453	\$ 3,811,385	\$ 552,068
Excess of Revenues Over (Under) Expenditures	\$ (47,176)	\$ (47,176)	\$ 466,573	\$ 513,749
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 4,442	\$ 4,442
Proceeds from sale of assets	-	-	8,500	8,500
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 12,942	\$ 12,942
Net Change in Fund Balance	\$ (47,176)	\$ (47,176)	\$ 479,515	\$ 526,691
Fund Balance - January 1	245,701	245,701	245,701	-
Increase (decrease) in reserved for inventories	-	-	2,751	2,751
Fund Balance - December 31	\$ 198,525	\$ 198,525	\$ 727,967	\$ 529,442

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,722,033	\$ 1,722,033	\$ 1,595,330	\$ (126,703)
Intergovernmental	2,188,078	2,188,078	2,479,324	291,246
Charges for services	50,040	50,040	57,083	7,043
Miscellaneous	212,675	212,675	349,391	136,716
Total Revenues	\$ 4,172,826	\$ 4,172,826	\$ 4,481,128	\$ 308,302
Expenditures				
Current				
Human services				
Income maintenance	\$ 993,973	\$ 993,973	\$ 990,174	\$ 3,799
Social services	3,240,903	3,286,533	3,450,136	(163,603)
Total Expenditures	\$ 4,234,876	\$ 4,280,506	\$ 4,440,310	\$ (159,804)
Net Change in Fund Balance	\$ (62,050)	\$ (107,680)	\$ 40,818	\$ 148,498
Fund Balance - January 1	852,438	852,438	852,438	-
Fund Balance - December 31	\$ 790,388	\$ 744,758	\$ 893,256	\$ 148,498

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ -	\$ -	\$ 224,750	\$ 224,750
Investment earnings	-	-	63,077	63,077
Total Revenues	\$ -	\$ -	\$ 287,827	\$ 287,827
Expenditures				
Current				
Conservation of natural resources				
Other	\$ -	\$ -	\$ 93,676	\$ (93,676)
Debt service				
Principal	48,000	48,000	150,000	(102,000)
Interest	29,728	29,728	169,113	(139,385)
Administrative (fiscal) charges	230	230	897	(667)
Total Expenditures	\$ 77,958	\$ 77,958	\$ 413,686	\$ (335,728)
Excess of Revenues Over (Under) Expenditures	\$ (77,958)	\$ (77,958)	\$ (125,859)	\$ (47,901)
Other Financing Sources (Uses)				
Transfers in	-	-	1,896	1,896
Net Change in Fund Balance	\$ (77,958)	\$ (77,958)	\$ (123,963)	\$ (46,005)
Fund Balance - January 1	2,425,002	2,425,002	2,425,002	-
Fund Balance - December 31	\$ 2,347,044	\$ 2,347,044	\$ 2,301,039	\$ (46,005)

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
BUILDING SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ -	\$ 50,000	\$ 44,579	\$ (5,421)
Intergovernmental	-	-	4,893	4,893
Miscellaneous	-	-	73,329	73,329
Total Revenues	\$ -	\$ 50,000	\$ 122,801	\$ 72,801
Expenditures				
Current				
General government				
Buildings and plant	32,000	32,000	116,185	(84,185)
Net Change in Fund Balance	\$ (32,000)	\$ 18,000	\$ 6,616	\$ (11,384)
Fund Balance - January 1	181,084	181,084	181,084	-
Fund Balance - December 31	\$ 149,084	\$ 199,084	\$ 187,700	\$ (11,384)

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2006

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 budgets in the General Fund and Family Services Special Revenue Fund were amended as follows:

	Original Budget	Increase (Decrease)	Final Budget
General Fund	\$ 4,783,157	\$ 14,000	\$ 4,797,157
Family Services Special Revenue Fund	4,234,876	45,630	4,280,506

4. General Fund Budgetary Highlights

Over the course of the year, the County Board revised the County's General Fund and the Family Services Special Revenue Fund budgets 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 \$965,761 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 Department.

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

4. General Fund Budgetary Highlights (Continued)

On the other hand, resources available for appropriation were also \$773,721 above the final budgeted amount. Greater than expected collections for certain fees offset reductions in anticipated investment earnings and state appropriations.

5. Excess of Expenditures Over Budget

<u>Fund</u>	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General	\$ 5,762,918	\$ 4,797,157	\$ 965,761
Family Services Special Revenue	4,440,310	4,280,506	159,804
Ditch Special Revenue	413,686	77,958	335,728
Building Special Revenue	116,185	32,000	84,185

SUPPLEMENTARY INFORMATION

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

Schedule 6

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 195,000	\$ 195,000	\$ 169,935	\$ (25,065)
Intergovernmental	-	-	19,084	19,084
Total Revenues	\$ 195,000	\$ 195,000	\$ 189,019	\$ (5,981)
Expenditures				
Debt service				
Principal	\$ 190,000	\$ 190,000	\$ 190,000	\$ -
Interest	4,750	4,750	4,750	-
Bond issuance costs	75	75	-	75
Total Expenditures	\$ 194,825	\$ 194,825	\$ 194,750	\$ 75
Excess of Revenues Over (Under) Expenditures	\$ 175	\$ 175	\$ (5,731)	\$ (5,906)
Other Financing Sources (Uses)				
Transfers out	-	-	(289,665)	(289,665)
Net Change in Fund Balance	\$ 175	\$ 175	\$ (295,396)	\$ (295,571)
Fund Balance - January 1	304,938	304,938	304,938	-
Fund Balance - December 31	\$ 305,113	\$ 305,113	\$ 9,542	\$ (295,571)

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

Statement 1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>AGENCY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 17,680	\$ 88,393	\$ 78,950	\$ 27,123
<u>Liabilities</u>				
Due to other governments	\$ 17,680	\$ 88,393	\$ 78,950	\$ 27,123
 <u>MENTAL HEALTH CONSORTIUM</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 689,966	\$ 4,123,099	\$ 3,969,204	\$ 843,861
<u>Liabilities</u>				
Due to other governments	\$ 689,966	\$ 4,123,099	\$ 3,969,204	\$ 843,861
 <u>MORTGAGE REGISTRY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 5,573	\$ 134,511	\$ 126,301	\$ 13,783
<u>Liabilities</u>				
Due to other governments	\$ 5,573	\$ 134,511	\$ 126,301	\$ 13,783

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

*Statement 1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>STATE DEED TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 14,158	\$ 122,847	\$ 112,281	\$ 24,724
<u>Liabilities</u>				
Due to other governments	\$ 14,158	\$ 122,847	\$ 112,281	\$ 24,724
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 80,153	\$ 14,105,070	\$ 14,047,528	\$ 137,695
<u>Liabilities</u>				
Due to other governments	\$ 80,153	\$ 14,105,070	\$ 14,047,528	\$ 137,695
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 807,530	\$ 18,573,920	\$ 18,334,264	\$ 1,047,186
<u>Liabilities</u>				
Due to other governments	\$ 807,530	\$ 18,573,920	\$ 18,334,264	\$ 1,047,186

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

Schedule 7

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Governmental Funds	Landfill Enterprise Fund	Total All Funds
Shared Revenue			
State			
Highway users tax	\$ 3,227,953	\$ -	\$ 3,227,953
County program aid	933,605	-	933,605
PERA rate reimbursement	17,411	-	17,411
Disparity reduction aid	46,756	-	46,756
Police aid	37,786	-	37,786
Enhanced 911	85,142	-	85,142
Market value credit	540,848	9,787	550,635
Total Shared Revenue	\$ 4,889,501	\$ 9,787	\$ 4,899,288
Reimbursement for Services			
State			
Minnesota Department of Human Services	\$ 1,210,543	\$ -	\$ 1,210,543
Payments			
Local			
Local	\$ 7,106	\$ -	\$ 7,106
Payments in lieu of taxes	87,348	-	87,348
Total Payments	\$ 94,454	\$ -	\$ 94,454
Grants			
State			
Minnesota Department of Corrections	\$ 27,324	\$ -	\$ 27,324
Transportation	67,530	-	67,530
Human Services	781,068	-	781,068
Natural Resources	36,487	-	36,487
Water and Soil Resources Board	71,646	-	71,646
Peace Officer Standards and Training Board	2,532	-	2,532
Pollution Control Agency	87,617	-	87,617
Total State	\$ 1,074,204	\$ -	\$ 1,074,204

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

Schedule 7
(Continued)

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Governmental Funds	Landfill Enterprise Fund	Total All Funds
Grants (Continued)			
Federal			
Department of			
Agriculture	\$ 3,441	\$ -	\$ 3,441
Transportation	69,448	-	69,448
Health and Human Services	337,845	-	337,845
Homeland Security	27,272	-	27,272
Environmental Protection Agency	30,776	-	30,776
Election Assistance Commission	197,663	-	197,663
Total Federal	\$ 666,445	\$ -	\$ 666,445
Total State and Federal Grants	\$ 1,740,649	\$ -	\$ 1,740,649
Total Intergovernmental Revenue	\$ 7,935,147	\$ 9,787	\$ 7,944,934

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

Schedule 8

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Cottonwood County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Cottonwood County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." We consider some of the deficiencies to be material weaknesses.
- C. No instances of noncompliance material to the financial statements of Cottonwood County were disclosed during the audit.
- D. No matters involving internal controls over compliance relating to the audit of the major federal award programs are 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 programs 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 programs are:
- | | |
|---|--------------|
| Public Transportation for Non-Urbanized Areas | CFDA #20.509 |
| Help America Vote Act Requirement Payments | CFDA #90.401 |
| Social Services Block Grant Title XX | CFDA #93.667 |
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Cottonwood County was determined not to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

99-1 Internal Accounting Controls

Due to the limited number of office personnel within the various County offices and departments, segregation of the accounting functions necessary to ensure adequate internal accounting control is not always possible. We also noted that the payroll clerks in the departments do not have sufficient segregation of duties.

One basic objective of internal control is to provide for segregation of incompatible duties. In other words, responsibilities should be separated among employees so that a single employee is not able to authorize a transaction, record the transaction in accounts, and be responsible for custody of the asset resulting from the transaction. The following duties should be segregated if possible:

- Someone independent of the cash collection and receipting function and the cash disbursement function should prepare bank reconciliations. If this is not possible, someone independent of these functions should review the bank reconciliations.
- Individuals who collect and receipt cash should not also:
 - post cash receipts to the general ledger system,
 - process cash disbursements,
 - maintain the general ledger,
 - make bank deposits,
 - make wire transfers,
 - make general journal entries, or
 - prepare billings.
- Individuals who process vouchers for payments should not also:
 - print or sign checks or
 - make journal entries.

The County does not segregate the duties of the payroll function. The payroll clerk makes changes or updates the payroll master file, prepares the payroll, and generates the payroll reports and checks with little oversight or review.

We recommend that County management segregate these duties within the accounting functions as much as possible by limiting access to accounting programs commensurate to the employees' duties and job responsibilities. If it is not possible to segregate these duties, County management should be aware of this lack of segregation of duties and implement oversight procedures to ensure the integrity and reliability of the financial information in the accounting system.

Client's Response:

Cottonwood County will limit access to the accounting programs as much as possible and implement oversight procedures in those situations where it may be necessary.

00-3 Annual Adopted Budget and Budget Policy

The County Board adopts a summarized budget at the fund level. As a result, the detail estimated revenue source by fund and the budgeted expenditure by fund, function, and departments are not always clearly documented. In addition, the Board has not developed and adopted a budget policy for management's administration of the County budget.

We noted in our review that the Board-approved budgets did not agree with the recorded budget in the County's general ledger. There are no controls in place to ensure that the County Summary Budget Statement agrees with the accounting system, and Board minutes do not contain complete fund budget information. Audit adjustments were required to the budget in order to present the budget in the annual financial statements.

We recommend the County Board adopt and record in its minutes fund budgets by major revenue source and estimated expenditures by function and department for each of the operational funds. After adoption, someone independent of the budget process should enter the original budget and budget amendments to the general ledger. In addition, we also recommend that the County Board develop and adopt budget policy and procedures to include the following elements:

- which funds require budgets,
- the legal level of budgetary control,

- when budgets can be modified by management and when budget modifications require Board approval,
- the budgetary basis on which the budget is adopted, and
- procedures for monitoring the budget.

Client's Response:

Cottonwood County will develop and adopt a budget policy and the associated procedures.

ITEMS ARISING THIS YEAR

06-1 Controls Over the Accounting System Journal Entry Function

The County does limit access to the accounting system journal entry function to select County employees. Five employees in the County have access to this function. The journal entries made to the accounting system are not reviewed or approved by anyone.

The ability to make journal entries on the accounting system is a powerful function because it allows those employees to make changes to the system. To prevent abuse of this function, access should be limited to those employees whose job duties require them to have this access.

We recommend the County strengthen the controls over the journal entries by re-evaluating who has access to the journal entry function and determine whether there is a logical need for those employees to have access to this function. We also recommend a procedure be established to require review and approval of journal entries by someone other than the person making the journal entries. This person should obtain an understanding of the journal entry and its purpose before approval. The approval could be documented by signature on a journal entry form, or a printed copy of the journal entry could be made. Supporting documentation or sufficient explanation should be attached to or included on the journal entry form to explain why the journal entry is being made and who is making the journal entry. Journal entries should be filed in a manner that allows for their review should questions arise. A report should be generated from the accounting system that lists all journal entries made. The person charged with review and approval of journal entries should periodically review this report. Review of this report would be to ensure that no journal entries have been made which have not been submitted for review and approval.

Client's Response:

Cottonwood County has limited the access to the journal entry function of the financial program and will implement procedures to ensure all journal entries are reviewed and approved by someone other than the person making the journal entries.

06-2 Capital Assets Policies and Procedures

For financial reporting and asset management purposes, the County is required to keep records of its capital assets, including infrastructure. The County maintains its capital asset records on a separate spreadsheet system. Capital asset additions and deletions are entered to this system, and depreciation is calculated by the system. Capital asset policies utilized by the County in maintaining the capital asset system have not been formally approved. A capital assets policy should be adopted that defines the County's accounting policies over capital assets, such as capitalization thresholds, useful lives, and depreciation methods.

It is not clear how the costs of replaced infrastructure assets are being deleted, if at all. The County is carrying a significant amount of fully depreciated assets. Typically, a capital asset still in use should not be considered fully depreciated. For significant assets, the estimated useful lives assigned to capital assets should be reconsidered. At the time of redetermination, the estimated useful life of an asset includes both the years the asset has been in service and the estimated number of years of service remaining.

We recommend the County Board establish a capital assets policy to define the County's accounting policies over capital assets. The policy should establish procedures to identify capital asset additions and deletions, to accurately estimate useful lives, and to address the point when useful lives of current capital assets should be reconsidered.

Department heads should report capital asset additions and deletions to the person maintaining the capital asset records at least annually. Also, we recommend a physical inventory of capital assets be performed periodically. This physical inventory can be rotated so that a portion of the capital assets is inventoried each year. Each asset should be counted at least once every four years. Some critical capital assets may need more frequent accounting.

Client's Response:

Cottonwood County will review their current Capital Assets Policy to ensure all proper procedures are in place.

06-3 Computer System Controls

Risk management begins with a risk assessment of the County's computer system to identify those risks that could negatively influence computer operations. Internal controls should be implemented to reduce the identified risks. Internal controls implemented should be documented in a well-maintained policies and procedures manual, which should be communicated to the County's staff. Staff adherence to these policies and procedures should be monitored.

Proper controls should be maintained over the computer system to allow for proper financial reporting. The County does not maintain error logs, segregate duties over the control of the computer system, require strong passwords, limit access to critical functions, or test and update its disaster recovery plan. The County also does not have a limit on the number of devices signed on to or a limit on security officer device access.

We recommend the County take steps to improve the control over its computer systems by reviewing and maintaining error logs, segregating the duties of the information technology staff, requiring passwords that are longer and include more randomized characters, and updating its disaster recovery plan.

We recommend the County Board develop a plan to ensure that internal controls are in place to reduce the risk associated with the County's computer systems. Because computer systems are ever changing, the County should include in its plan periodic reassessment of risk to ensure existing internal controls are still effective.

Client's Response:

Cottonwood County will develop a plan to ensure internal controls are in place on all of their computer systems.

06-4 Accounting Policies and Procedures Manual

The County does not have a current and comprehensive accounting policies and procedures manual. All governments should document their accounting policies and procedures. Although other methods might suffice, this documentation is traditionally in the form of an accounting policies and procedures manual. This manual should document the accounting policies and procedures which make up the County's internal control system.

An accounting policies and procedures manual will enhance employees' understanding of their role and function in the internal control system, establish responsibilities, provide guidance for employees, improve efficiency and consistency of transaction processing, and improve compliance with established policies. It can also help to prevent deterioration of key elements in the County's internal control system and can help to avoid circumvention of County policies.

We recommend the County establish an accounting policies and procedures manual. The accounting policies and procedures manual should be prepared by appropriate levels of management and be approved by the County Board to emphasize its importance and authority. The documentation should describe procedures as they are intended to be performed, indicate which employees are to perform which procedures, and explain the design and purpose of control-related procedures to increase employee understanding and support for controls.

Client's Response:

Cottonwood County will establish an accounting policies and procedures manual.

06-5 Financial Reporting

The County is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the County's management. Financial statement preparation in accordance with GAAP requires internal control over both recording, processing, and summarizing accounting data (maintaining internal books and records) and preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

As is the case with many small and medium-sized entities, the County has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. Accordingly, the County's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the County's internal control. This condition was caused by the County's decision that it is more cost effective to have its auditors prepare its basic financial statements than to incur the time and expense of obtaining the necessary training and expertise required to prepare the financial statements internally. As a result of this condition, the County lacks internal controls over the preparation of financial statements in accordance with GAAP.

Schedule 8
(Continued)

The County’s accounting system has been upgraded to accommodate the modified accrual and full accrual bases of accounting in separate general ledger systems to allow for the preparation of the annual financial statements in accordance with generally accepted accounting principles for governments.

In order to utilize this upgrade to generate materially correct financial statements, the first step is for counties to change their accounting practices and account structure to be compliant with County Financial Accounting and Reporting Standards (COFARS). The second step is to code receipt and disbursement accounts with certain prescribed codes to allow for the detailed accounts to be summarized as required in the financial statements. This process is called mapping the general ledger accounts. The last step is to prepare modified accrual and full accrual adjusting journal entries to convert the cash basis information in the accounting system to the necessary basis of accounting for the County’s annual financial report.

During our audit, we noted the following deficiencies that prevented the accounting system from providing accurate modified and full accrual financial statements. These deficiencies resulted in additional audit time because significant audit adjustments were required to correct the financial statements prepared by the County.

- As a result of coding and mapping errors and incomplete accrual adjusting journal entries, the modified accrual basis fund financial statements were materially misstated and needed numerous audit adjustments. The most significant of these audit adjustments related to receivables, payables, and deferred revenue. The net effect of our audit adjustments to the governmental funds financial statements for selected financial statement captions was as follows:

		Client Over/(Under) Audited Totals
Total Assets	\$	(4,449,178)
Total Liabilities		(3,076,244)
Total Fund Balance		(1,370,543)
Total Revenues		4,338,826
Total Expenditures		3,919,522
Other Financing Sources		(160,246)

- The full accrual statements prepared by the County were also materially misstated. The County did not accrue and post full accrual journal adjusting entries to convert the modified accrual statements to full accrual financial statements. Entries should have been made to report capital assets and long-term debt and eliminate interfund activities.

Schedule 8
(Continued)

We recommend that the County train staff in coding receipts and disbursements and maintain COFARS-compliant accounts in the accounting system with correct mapping to allow for the detail to be summarized as required in the financial statements. This process should be monitored by a knowledgeable person to ensure that the accounts are correctly summarized for financial statement purposes. As part of the financial statement preparation, summary schedules and worksheets should be prepared by County staff to document the various accrual adjusting journal entries and demonstrate how the accounts in the financial records are classified or summarized for the annual financial statements. When the financial statements are completed by the accounting system, County staff should review the statements to ensure that reported amounts can be traced back to the prepared supporting schedules and worksheets. Finally, the County will need to prepare full accrual journal entries in the separate general ledger accounting system to convert the financial statements from modified accrual to the full accrual basis.

In order to accomplish this, the County Board should ensure that staff assigned to prepare the annual financial statements and the required notes to the financial statements have adequate training and have a good understanding of the requirements of generally accepted accounting principles for governments. In addition, the Board should ensure that staff has the time necessary to complete the draft financial report by the date mutually agreed to with the Office of the State Auditor.

We are available to assist the County with the implementation of these recommendations. If the County intends to have staff from the Office of the State Auditor assist in preparation, then at a minimum, it must identify and train individuals to obtain the expertise that can sufficiently review, understand, and approve the financial statements, including notes. As an alternative, the County could consider hiring an outside consultant to assist in preparing its basic financial statements.

Client's Response:

Cottonwood County will continue to train staff in the preparation and understanding of the necessary financial statements.

06-6 Audit Adjustments

A control deficiency exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions to prevent or detect misstatements of the financial statements on a timely basis. A control deficiency that typically is considered significant is the identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls.

During our audit, we proposed numerous adjustments that resulted in significant changes to the County's financial statements. The adjustments resulted from: human resource considerations, including staffing levels and qualifications, need to be addressed; County staff needing continued guidance on accounting principles and oversight to provide accurate and reliable information; errors made in recording transactions and with mapping of various account codes; controls over calculating the proper amounts of assets and liabilities did not detect a number of errors, which resulted in the client's records understating assets, liabilities, and fund balance, and overstating revenues and expenditures; and the County did not consider the need for controls over the recording of certain accounting transactions. The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements may not be fairly presented.

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

Client's Response:

Cottonwood County will continue to review and improve the internal controls designed to detect potential material misstatements in the financial statements.

PREVIOUSLY REPORTED ITEM RESOLVED

Checking Account Reconciliation (05-1)

The County's Bank of the West checking account was out of balance by \$1,259.40 at December 31, 2005. The account had been out of balance since October 2005 and continued to be out of balance during all of 2006. This could lead to inaccurate reporting of cash balances and the potential loss of County funds due to bank error.

Resolution

The County reconciles all cash balances to the bank statements every month.

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:

Cottonwood County will continue to try and obtain a written assignment of collateral which is approved by the depository bank's board of directors and is a continuous official record of the bank.

05-2 Depository Pledge Agreement

The County does not have Depository Pledge Agreements with any of the banks that pledge collateral.

We recommend that the County execute security agreements with all banks. The pledge agreement should be consistent with the language of Minn. Stat. § 118A.03.

Client's Response:

Cottonwood County will execute security agreements with all banks it conducts business with.

ITEM ARISING THIS YEAR

06-7 Collateral Pledged to Secure Deposits

Federal deposit insurance (FDIC) and collateral pledged at December 31, 2006, was insufficient for the amount on deposit at the Countrywide Bank of Alexandria, Virginia, by \$95,000.

Minn. Stat. § 118A.03 provides that, to the extent funds deposited are in excess of available federal deposit insurance, “[t]he total amount of the collateral computed at its market value shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the business day.”

We recommend that the County Auditor/Treasurer monitor the deposits in designated depositories to ensure that County funds are fully protected, as required by Minn. Stat. § 118A.03, at all times.

Client's Response:

The Cottonwood County Auditor/Treasurer will monitor CD deposits to ensure FDIC insurance requirements are met.

PREVIOUSLY REPORTED ITEM RESOLVED

Undistributed Collections in Taxes and Penalties Agency Fund (02-2)

At December 31, 2005, undistributed collections in the Taxes and Penalties Agency Fund were \$11,538. The County Auditor/Treasurer could not explain the unreconciled variance.

Resolution

The County complies with the provisions of Minn. Stat. § 276.111.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-6 County Ditch Fund Deficits

Seven of the 97 individual ditch systems had deficit fund balances as of December 31, 2006, totaling \$591,049, which is a decrease from the \$879,541 reported in the prior audit. The 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:

Cottonwood County will continue to eliminate individual ditch system deficit fund balances.

PREVIOUSLY REPORTED ITEM RESOLVED

Payroll System (01-15)

Payroll was processed on an automatic pay system for regular full-time employees of the Family Services Fund. There was no lag time from the time worked to the time paid. Family Services employees were paid on the 15th and the last day of the month. The Board approves an annual salary, and the employees were paid one-twenty-fourth of the salary each paycheck. However, employees still earned and were paid for overtime and compensatory time.

Resolution

A positive payroll system was put in place January 1, 2006.

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. These standards, similar to what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statements, accounting for OPEB is now similar to the accounting used by governments for pension plans.

Some of the issues that the County Board will need to address in order to comply with the statements are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the County Board will have to wait until legislation is enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard; and
- in order to determine annual costs and liabilities that need to be recognized, the County Board will have to decide whether to hire an actuary.

If applicable for Cottonwood County, GASB Statements 43 and 45 would be implemented for the years ended December 31, 2007 and 2008, respectively.

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OTHER REQUIRED REPORTS

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

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, 2006, and have issued our report thereon dated December 18, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 99-1, 00-3, and 06-1 through 06-6 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Cottonwood County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 99-1, 00-3, 06-1, 06-3, 06-5, and 06-6 to be material weaknesses.

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 seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, tax increment financing, 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, 05-2, and 06-7.

Also included in the Schedule of Findings and Questioned Costs are management practices comments and an other item for consideration. We believe these recommendations and information to be of benefit to Cottonwood County, and they are reported for that purpose.

Cottonwood County's written responses to the significant deficiencies, material weaknesses, and legal compliance findings identified in our audit have not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of County Commissioners, management, others within Cottonwood County, 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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 18, 2007

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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 each of its major federal programs for the year ended December 31, 2006. Cottonwood County's major federal programs are 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 each of its major federal programs 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 each of its major federal programs for the year ended December 31, 2006.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Cottonwood County's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

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, 2006, and have issued our report thereon dated December 18, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Cottonwood 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 others within the County, 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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

December 18, 2007

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

Schedule 9

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services Matching Grants for Food Stamp Program	10.561	\$ <u>3,441</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Federal Transit Metro Planning Grants	20.505	\$ 1,887
Public Transportation for Non-Urbanized Areas	20.509	<u>67,561</u>
Total U.S. Department of Transportation		\$ <u>69,448</u>
U.S. Environmental Protection Agency		
Passed Through Minnesota Pollution Control Agency Nonpoint Source Implementation Grants	66.460	\$ <u>30,776</u>
U.S. Election Assistance Commission		
Passed Through Minnesota Secretary of State Help America Vote Act Requirements Payments	90.401	\$ <u>122,575</u>
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	\$ 15,126
Temporary Assistance for Needy Families (TANF)	93.558	72,191
Child Care Development Block Grant	93.575	5,588
Foster Care Title IV-E	93.658	104,513
Social Services Block Grant Title XX	93.667	120,829
Chafee Foster Care Independence Program	93.674	6,543
Community Mental Health Block Grant	93.958	<u>13,055</u>
Total U.S. Department of Health and Human Services		\$ <u>337,845</u>
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	\$ 21,192
Passed Through Minnesota Department of Public Safety Emergency Management Performance Grants	97.042	<u>6,080</u>
Total U.S. Department of Homeland Security		\$ <u>27,272</u>
Total Federal Awards		\$ <u><u>591,357</u></u>

**COTTONWOOD COUNTY
WINDOM, MINNESOTA**

***Schedule 9
(Continued)***

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

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 to the financial statements.
2. The expenditures on this schedule are on the basis of accounting used by the individual funds of the County. Governmental funds use the modified accrual basis of accounting. In 2006, \$75,088 of current year federal revenues for CFDA No. 90.401 were not recognized as expenditures because they had not been spent by year-end.
3. During 2006, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.