STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

COTTONWOOD COUNTY
WINDOM, MINNESOTA

YEAR ENDED DECEMBER 31, 2015

Description of the Office of the State Auditor

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

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

The State Auditor performs approximately 150 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

Pension - monitors investment, financial, and actuarial reporting for approximately 700 public pension funds; and

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

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

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COTTONWOOD COUNTY
WINDOM, MINNESOTA

Year Ended December 31, 2015

Audit Practice Division
Office of the State Auditor
State of Minnesota

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Introductory Section

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COTTONWOOD COUNTY
WINDOM, MINNESOTA

ORGANIZATION
2015

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

[1]Chair 2015
[2]Chair 2016

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Cottonwood County
Windom, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Cottonwood County, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

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

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

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

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

Opinions

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Cottonwood County as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2015 the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB Statement No. 82, *Pension Issues*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Cottonwood County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2016, on our consideration of Cottonwood County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cottonwood County's internal control over financial reporting and compliance.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cottonwood County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) as required by Title 2 U.S. *Code of Federal Regulations* Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the basic financial statements. The SEFA is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

May 4, 2016

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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COTTONWOOD COUNTY
WINDOM, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015
(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, 2015. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements (beginning on page 15).

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is $57,104,167, of which $51,227,255 is the net investment in capital assets, leaving $2,580,399 of the governmental activities' net position restricted for specific uses and $3,296,513 as unrestricted.

- Business-type activities have a total net position of $1,507,975, of which $832,290 is the net investment in capital assets, leaving $472,255 of the business-type net position restricted for specific uses and $203,430 as unrestricted.

- Cottonwood County's net position increased by $2,620,802 for the year ended December 31, 2015, after the restatement for Governmental Accounting Standards Board (GASB) Statements 68 and 71. This position is comprised of an increase of $2,496,444 in the governmental activities' net position and an increase of $124,358 in the business-type activities' net position. Additional information about the restatement can be found in Note 1.E.

- The net cost of governmental activities was $7,585,598 for the current fiscal year. The net cost was funded by general revenues and other items totaling $10,082,042.

- Governmental funds' fund balances increased by $120,432.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Management's Discussion and Analysis
(Required supplementary information)

Government-Wide
Financial Statements
(pages 15 through 18)

↔

Fund Financial
Statements
(pages 19 through 29)

Notes to the Financial Statements
(pages 30 through 80)

Required Supplementary Information
(other than MD&A)
(pages 81 through 90)

There are two government-wide financial statements. The Statement of Net Position and the Statement of Activities (on pages 15 through 18) provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements start on page 19. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

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

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

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

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

- Governmental activities--Most of the County’s basic services are reported here, including general government, public safety, highways and streets, sanitation, health and human services, culture and recreation, and conservation of natural resources. Property taxes and state and federal grants finance most of these activities.

- Business-type activities--The County charges a fee to customers to help it cover all or most of the cost of services it provides. The County’s solid waste landfill activities are reported here.

Fund Financial Statements

Our analysis of the County’s major funds begins on page 19. The fund financial statements provide detailed information about the significant funds--not the County as a whole. Some funds are required to be established by state law and by bond covenants. However, the County Board establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The County’s two kinds of funds--governmental and proprietary--use different accounting methods.

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

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

Reporting the County's Fiduciary Responsibilities

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

Other Information

In addition to the basic financial statements and notes, this report also presents certain required supplementary information concerning Cottonwood County's budgetary comparison schedules for the General Fund and the Road and Bridge Special Revenue Fund, progress in funding its obligation to provide other postemployment benefits to its employees, and statements of proportionate share of net pension liability and schedules of contributions. Required supplementary information can be found on pages 81 through 90.

THE COUNTY AS A WHOLE

The County's combined net position is $58,612,142. Looking at the net position and changes in net position of governmental and business-type activities separately, however, two different stories emerge. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the County's governmental and business-type activities.

Table 1
Net Position

	2015			
	Governmental Activities	Business-Type Activities	Total	2014 Restated (1)
Assets				
Current and other assets	$ 11,252,722	$ 1,887,444	$ 13,140,166	$ 14,938,470
Capital assets	51,529,800	1,225,152	52,754,952	48,845,330
Total Assets	$ 62,782,522	$ 3,112,596	$ 65,895,118	$ 63,783,800
Deferred Outflows of Resources	$ 568,889	$ 11,423	$ 580,312	$ 170,315
Liabilities				
Long-term liabilities	$ 5,323,490	$ 1,603,254	$ 6,926,744	$ 6,975,633
Other liabilities	626,814	7,748	634,562	987,142
Total Liabilities	$ 5,950,304	$ 1,611,002	$ 7,561,306	$ 7,962,775
Deferred Inflows of Resources	$ 296,940	$ 5,042	$ 301,982	$ -
Net Position				
Net investment in capital assets	$ 51,227,255	$ 832,290	$ 52,059,545	$ 48,258,198
Restricted	2,580,399	472,255	3,052,654	4,336,633
Unrestricted	3,296,513	203,430	3,499,943	3,396,509
Total Net Position, as restated (1)	$ 57,104,167	$ 1,507,975	$ 58,612,142	$ 55,991,340

(1) Restatement for change in accounting principle; see Note 1.E.

Net position of the County's governmental activities was $57,104,167. Unrestricted net position--the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements--was $3,296,513 at the end of the year. The net position of business-type activities was $1,507,975.

Table 2
Changes in Net Position
(in Thousands)

	2015			
	Governmental Activities	Business-Type Activities	Total	2014 Restated (1)
Revenues				
Program revenues				
Fees, fines, and charges	$ 1,200	$ 645	$ 1,845	$ 1,555
Operating grants and contributions	4,397	-	4,397	4,127
Capital grants and contributions	1,469	-	1,469	29
General revenues				
Property taxes	8,545	-	8,545	8,088
Other taxes	423	-	423	379
Grants, gifts, and miscellaneous	1,140	-	1,140	979
Total Revenues	$ 17,174	$ 645	$ 17,819	$ 15,157
Expenses				
General government	$ 3,153	$ -	$ 3,153	$ 3,705
Public safety	2,665	-	2,665	3,905
Highways and streets	4,706	-	4,706	5,406
Sanitation	268	-	268	272
Health and human services	2,897	-	2,897	3,489
Culture and recreation	214	-	214	195
Conservation of natural resources	704	-	704	672
Interest	45	-	45	53
Landfill	-	547	547	665
Total Expenses	$ 14,652	$ 547	$ 15,199	$ 18,362
Increase (decrease) before transfers	$ 2,522	$ 98	$ 2,620	$ (3,205)
Transfers (includes joint powers)	(26)	26	-	(707)
Increase (decrease) in net position	$ 2,496	$ 124	$ 2,620	$ (3,912)
Net Position - January 1, as restated (1)	54,608	1,384	55,992	59,904
Net Position - December 31	$ 57,104	$ 1,508	$ 58,612	$ 55,992

(1) Restatement for change in accounting principle; see Note 1.E.

The County's activities increased net position by 4.68 percent ($58,612,142 for 2015 compared to $55,991,340 for 2014, as restated).

TOTAL COUNTY REVENUE

Governmental Activities

Revenues for the County's governmental activities (see Table 2) were $17,174,384, while total expenses were $14,651,714, and transfers out were $26,226. This reflects a $2,496,444 increase in net position for the year ended December 31, 2015.

Business-Type Activities

Revenues of the County's business-type activities (see Table 2) were $644,899, transfers in were $26,226, and expenses were $546,767. This reflects a $124,358 increase in net position for the year ending December 31, 2015.

Governmental Activities' Expenses

The cost of the County's governmental activities this year was $14,651,714. However, as shown in the Statement of Activities on pages 17 and 18, the amount that taxpayers ultimately financed for these activities through County taxes and other general revenue was $7,585,598 because some of the cost was paid by those who directly benefited from the programs ($1,200,490) or by other governments and organizations that subsidized certain programs with grants and contributions ($5,865,626).

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)

	2015	
	Total Cost of Services	Net Cost of Services
Highways and streets	$ 4,706	$ (717)
General government	3,153	2,728
Health and human services	2,897	2,897
Public safety	2,665	2,304
Conservation of natural resources	704	285
All others	527	89
Totals	$ 14,652	$ 7,586

THE COUNTY'S FUNDS

As the County completed the year, its governmental funds (as presented in the Balance Sheet on pages 19 through 20) reported a combined fund balance of $8,174,239, which is above last year's total of $8,053,807. The governmental funds' change in fund balance (an increase of $120,432 for 2015) represents a 1.5 percent increase in governmental fund balances. Most of the governmental funds' slight increase is due to new Minnesota Pollution Control Agency loans received in the audit year.

General Fund Budgetary Highlights

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

With these adjustments, the actual charges to appropriations (expenditures) were $457,830 above the final budget amounts. The major reason for variances of actual expenditures from final budget in this case are the unbudgeted payroll expenditures for general government and public safety.

On the other hand, resources available for appropriation were $383,417 above the final budgeted amount. Increased state and federal reimbursements helped push revenues above expected levels.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2015, the County had $52,754,952 invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment. (See Table 4.) This amount represents a net increase (including additions and deductions) of $3,909,622, or 8.0 percent, over last year.

Table 4
Changes in Capital Assets During 2015

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 315,824	$ 5,300	$ -	$ 321,124
Right-of-way	796,481	-	-	796,481
Total capital assets not depreciated	$ 1,112,305	$ 5,300	$ -	$ 1,117,605
Capital assets depreciated				
Buildings	$ 4,886,385	$ 71,700	$ 24,296	$ 4,933,789
Machinery and equipment	6,383,032	496,171	197,701	6,681,502
Infrastructure	60,104,909	4,958,362	-	65,063,271
Total capital assets depreciated	$ 71,374,326	$ 5,526,233	$ 221,997	$ 76,678,562
Less: accumulated depreciation for				
Buildings	$ 2,602,261	$ 91,789	$ 24,181	$ 2,669,869
Machinery and equipment	4,176,684	391,340	197,701	4,370,323
Infrastructure	17,952,806	1,273,369	-	19,226,175
Total accumulated depreciation	$ 24,731,751	$ 1,756,498	$ 221,882	$ 26,266,367
Total capital assets depreciated, net	$ 46,642,575	$ 3,769,735	$ 115	$ 50,412,195
Governmental Activities Capital Assets, Net	$ 47,754,880	$ 3,775,035	$ 115	$ 51,529,800

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 163,882	$ -	$ -	$ 163,882
Capital assets depreciated				
Buildings	$ 23,700	$ -	$ -	$ 23,700
Land improvements	2,363,085	-	-	2,363,085
Machinery and equipment	801,127	382,903	268,993	915,037
Total capital assets depreciated	$ 3,187,912	$ 382,903	$ 268,993	$ 3,301,822
Less: accumulated depreciation for				
Buildings	$ 23,700	$ -	$ -	$ 23,700
Land improvements	1,959,309	51,546	-	2,010,855
Machinery and equipment	278,335	92,980	165,318	205,997
Total accumulated depreciation	$ 2,261,344	$ 144,526	$ 165,318	$ 2,240,552
Total capital assets depreciated, net	$ 926,568	$ 238,377	$ 103,675	$ 1,061,270
Business-Type Activities Capital Assets, Net	$ 1,090,450	$ 238,377	$ 103,675	$ 1,225,152

The County's fiscal year 2015 capital budget called for it to spend $4,945,000 on highway and bridge construction and $300,000 on road and bridge equipment purchases, all to be financed with resources on hand in existing County funds.

Debt

At the end of the current fiscal year, the County had total outstanding debt of $1,917,471, versus $2,179,744 last year--a decrease of 12.03 percent--as shown in Table 5.

Table 5
Changes in Outstanding Debt During 2015

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable (fund liquidating the debt)					
G.O. Drainage Crossover Refund Bond 2011 (Ditch)	$ 770,000	$ -	$ 160,000	$ 610,000	$ 160,000
Add: unamortized premium	13,240	-	2,601	10,639	-
Total bonds payable	$ 783,240	$ -	$ 162,601	$ 620,639	$ 160,000
Loans payable	809,372	195,572	133,519	871,425	139,472
Capital lease	331,128	-	78,583	252,545	81,054
Governmental Activities Debt	$ 1,923,740	$ 195,572	$ 374,703	$ 1,744,609	$ 380,526

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Loans Payable	$ 256,004	$ -	$ 83,142	$ 172,862	$ 36,732

The County's general obligation bond rating is an AA-. This rating is assigned by national rating agencies. The state limits the amount of net debt that counties can issue to three percent of the market value of all taxable property ($3,376,771,400) in the County. The County's outstanding net debt ($1,917,471) is significantly below this state-imposed limit ($101,303,142).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting landfill fees, the fiscal year 2016 budget, and property tax rates.

- Cottonwood County is anticipating reductions of state aids to local governments. The County will do its best to maintain a stable service environment even if state reductions are implemented.

- County General Fund expenditures for 2016 are budgeted to decrease 17.1 percent from 2015.

- Property taxes levied have increased 5.90 percent for 2016.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT 1

STATEMENT OF NET POSITION
DECEMBER 31, 2015

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and pooled investments	$ 8,133,533	$ 245,929	$ 8,379,462
Receivables	2,577,536	52,997	2,630,533
Internal balances	220,000	(220,000)	-
Inventories	242,723	-	242,723
Restricted assets			
Cash and pooled investments	-	1,808,518	1,808,518
Net OPEB asset	78,930	-	78,930
Capital assets			
Non-depreciable capital assets	1,117,605	163,882	1,281,487
Depreciable capital assets - net of accumulated depreciation	50,412,195	1,061,270	51,473,465
Total Assets	**$ 62,782,522**	**$ 3,112,596**	**$ 65,895,118**
Deferred Outflows of Resources			
Deferred amount on refunding	$ 9,101	$ -	$ 9,101
Deferred pension outflows	559,788	11,423	571,211
Total Deferred Outflows of Resources	**$ 568,889**	**$ 11,423**	**$ 580,312**
Liabilities			
Accounts payable and other current liabilities	$ 557,345	$ 7,748	$ 565,093
Accrued interest payable	12,169	-	12,169
Unearned revenue	57,300	-	57,300
Long-term liabilities			
Due within one year	442,497	39,403	481,900
Due in more than one year	1,895,135	1,495,286	3,390,421
Net pension obligation	2,985,858	68,565	3,054,423
Total Liabilities	**$ 5,950,304**	**$ 1,611,002**	**$ 7,561,306**

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

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT 1
(Continued)

STATEMENT OF NET POSITION
DECEMBER 31, 2015

	Governmental Activities	Business-Type Activities	Total
Deferred Inflows of Resources			
Deferred pension inflows	**$ 296,940**	**$ 5,042**	**$ 301,982**
Net Position			
Net investment in capital assets	$ 51,227,255	$ 832,290	$ 52,059,545
Restricted for			
Public safety	232,697	-	232,697
Highways and streets	1,175,286	-	1,175,286
Conservation of natural resources	731,409	-	731,409
Economic development	108,287	-	108,287
Postclosure care	-	472,255	472,255
Other purposes	332,720	-	332,720
Unrestricted	3,296,513	203,430	3,499,943
Total Net Position	**$ 57,104,167**	**$ 1,507,975**	**$ 58,612,142**

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

COTTONWOOD COUNTY
WINDOM, MINNESOTA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

	Expenses	Fees, Charges, Fines, and Other
Functions/Programs		
Governmental activities		
General government	$ 3,152,235	$ 247,996
Public safety	2,664,699	147,234
Highways and streets	4,706,680	197,895
Sanitation	267,920	237,626
Health and human services	2,896,728	-
Culture and recreation	214,639	116,136
Conservation of natural resources	704,045	253,603
Economic development	-	-
Interest	44,768	-
Total governmental activities	**$ 14,651,714**	**$ 1,200,490**
Business-type activities		
Landfill	546,767	644,899
Total	**$ 15,198,481**	**$ 1,845,389**

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

Total general revenues and transfers

Change in net position

Net Position - January 1, as previously reported
Restatement (Note 1.E.)

Net Position - January 1, as restated

Net Position - December 31

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

Program Revenues		Net (Expense) Revenue and Changes in Net Position		
Operating Grants and Contributions	**Capital Grants and Contributions**	**Governmental Activities**	**Business-Type Activities**	**Total**
$ 176,617	$ -	$ (2,727,622)	$ -	$ (2,727,622)
213,579	-	(2,303,886)	-	(2,303,886)
3,756,489	1,468,819	716,523	-	716,523
69,692	-	39,398	-	39,398
-	-	(2,896,728)	-	(2,896,728)
-	-	(98,503)	-	(98,503)
165,430	-	(285,012)	-	(285,012)
15,000	-	15,000	-	15,000
-	-	(44,768)	-	(44,768)
$ 4,396,807	**$ 1,468,819**	**$ (7,585,598)**	**$ -**	**$ (7,585,598)**
-	-	-	98,132	98,132
$ 4,396,807	**$ 1,468,819**	**$ (7,585,598)**	**$ 98,132**	**$ (7,487,466)**
		$ 8,545,336	$ -	$ 8,545,336
		60,368	-	60,368
		24,262	-	24,262
		132,698	-	132,698
		205,920	-	205,920
		580,075	-	580,075
		227,014	-	227,014
		133,770	-	133,770
		198,825	-	198,825
		(26,226)	26,226	-
		$ 10,082,042	**$ 26,226**	**$ 10,108,268**
		$ 2,496,444	**$ 124,358**	**$ 2,620,802**
		$ 57,222,331	$ 1,442,892	$ 58,665,223
		(2,614,608)	(59,275)	(2,673,883)
		$ 54,607,723	**$ 1,383,617**	**$ 55,991,340**
		$ 57,104,167	**$ 1,507,975**	**$ 58,612,142**

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT 3

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015

	General	Road and Bridge	Ditch	Building	Total Governmental Funds
Assets					
Cash and pooled investments	$ 5,668,705	$ 1,182,289	$ 755,024	$ 397,330	$ 8,003,348
Petty cash and change funds	3,350	-	-	-	3,350
Undistributed cash in agency funds	125,225	-	983	627	126,835
Taxes receivable					
Delinquent	67,001	-	-	441	67,442
Special assessments					
Delinquent	14,044	-	69	-	14,113
Noncurrent	676,519	-	451,548	-	1,128,067
Accounts receivable	40,715	1,561	-	-	42,276
Accrued interest receivable	1,561	-	-	-	1,561
Loans receivable	148,334	-	-	-	148,334
Due from other governments	-	1,175,743	-	-	1,175,743
Inventories	-	242,723	-	-	242,723
Advances to other funds	433,851	-	-	-	433,851
Total Assets	**$ 7,179,305**	**$ 2,602,316**	**$ 1,207,624**	**$ 398,398**	**$ 11,387,643**
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities					
Accounts payable	$ 172,008	$ 36,613	$ 225	$ 747	$ 209,593
Salaries payable	172,221	68,822	-	-	241,043
Contracts payable	-	54,570	-	-	54,570
Due to other governments	52,139	-	-	-	52,139
Unearned revenue	50,050	-	-	7,250	57,300
Advances from other funds	-	-	213,851	-	213,851
Total Liabilities	**$ 446,418**	**$ 160,005**	**$ 214,076**	**$ 7,997**	**$ 828,496**

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

EXHIBIT 3
(Continued)

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015

	General	Road and Bridge	Ditch	Building	Total Governmental Funds
Liabilities, Deferred Inflows of Resources, and Fund Balances (Continued)					
Deferred Inflows of Resources					
Unavailable revenue	**$ 757,564**	**$ 1,175,286**	**$ 451,617**	**$ 441**	**$ 2,384,908**
Fund Balances					
Nonspendable					
Inventories	$ -	$ 242,723	$ -	$ -	$ 242,723
Long-term loans receivable	122,429	-	-	-	122,429
Advances to other funds	433,851	-	-	-	433,851
Restricted for					
Law library	2,137	-	-	-	2,137
Recorder's technology fund	72,074	-	-	-	72,074
Enhanced 911	189,892	-	-	-	189,892
Permit to carry administration	42,805	-	-	-	42,805
Recorder's compliance fund	145,218	-	-	-	145,218
Election equipment	48,264	-	-	-	48,264
Low-interest small business loans	108,287	-	-	-	108,287
Septic/sewer loan repayments	311,386	-	-	-	311,386
Ditch maintenance and repairs	-	-	696,384	-	696,384
Land restoration	65,027	-	-	-	65,027
Assigned to					
Capital improvements	451,375	-	-	-	451,375
Canteen fund	25,528	-	-	-	25,528
County septic/sewer loan program	50,949	-	-	-	50,949
Road and bridge	-	1,024,302	-	-	1,024,302
Building projects	-	-	-	389,960	389,960
Unassigned	3,906,101	-	(154,453)	-	3,751,648
Total Fund Balances	**$ 5,975,323**	**$ 1,267,025**	**$ 541,931**	**$ 389,960**	**$ 8,174,239**
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	**$ 7,179,305**	**$ 2,602,316**	**$ 1,207,624**	**$ 398,398**	**$ 11,387,643**

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT 4

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2015

Fund balances - total governmental funds (Exhibit 3)		**$ 8,174,239**
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		51,529,800
Net OPEB assets are not available resources and, therefore, are not reported in the funds.		78,930
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds.		2,384,908
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.		
Deferred outflows related to pensions		559,788
Deferred inflows related to pensions		(296,940)
Deferred outflows of resources resulting from debt refundings are not recognized in the governmental funds.		9,101
Governmental funds do not report a liability for accrued interest on long-term liabilities until due and payable.		(12,169)
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	$ (610,000)	
Unamortized premium on general obligation refunding bonds	(10,639)	
Capital leases	(252,545)	
Loans payable	(871,425)	
Compensated absences	(593,023)	
Net pension liability	(2,985,858)	(5,323,490)
Net Position of Governmental Activities (Exhibit 1)		**$ 57,104,167**

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT 5

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	General	Road and Bridge	Ditch	Building	Total Governmental Funds
Revenues					
Taxes	$ 7,096,178	$ 1,819,907	$ -	$ 48,322	$ 8,964,407
Special assessments	312,621	-	198,143	-	510,764
Licenses and permits	22,510	8,058	-	-	30,568
Intergovernmental	1,422,024	6,606,851	-	-	8,028,875
Charges for services	224,936	51,457	-	-	276,393
Fines and forfeits	14,734	-	-	-	14,734
Gifts and contributions	15,000	-	-	-	15,000
Investment earnings	133,770	-	-	-	133,770
Miscellaneous	419,221	138,380	949	92,865	651,415
Total Revenues	**$ 9,660,994**	**$ 8,624,653**	**$ 199,092**	**$ 141,187**	**$ 18,625,926**
Expenditures					
Current					
General government	$ 3,034,000	$ -	$ -	$ 61,797	$ 3,095,797
Public safety	2,561,227	-	-	-	2,561,227
Highways and streets	-	8,042,369	-	-	8,042,369
Sanitation	267,278	-	-	-	267,278
Health and human services	15,192	-	-	-	15,192
Culture and recreation	241,772	-	-	-	241,772
Conservation of natural resources	608,827	-	89,386	-	698,213
Intergovernmental	2,881,536	379,428	-	-	3,260,964
Debt service					
Principal	133,519	78,583	160,000	-	372,102
Interest	9,729	10,324	24,797	-	44,850
Administrative (fiscal) charges	-	-	930	-	930
Total Expenditures	**$ 9,753,080**	**$ 8,510,704**	**$ 275,113**	**$ 61,797**	**$ 18,600,694**
Excess of Revenues Over (Under) Expenditures	**$ (92,086)**	**$ 113,949**	**$ (76,021)**	**$ 79,390**	**$ 25,232**
Other Financing Sources (Uses)					
Transfers in	$ -	$ 125,000	$ -	$ -	$ 125,000
Transfers out	(151,226)	-	-	-	(151,226)
Loans issued	195,572	-	-	-	195,572
Total Other Financing Sources (Uses)	**$ 44,346**	**$ 125,000**	**$ -**	**$ -**	**$ 169,346**
Net Change in Fund Balances	**$ (47,740)**	**$ 238,949**	**$ (76,021)**	**$ 79,390**	**$ 194,578**
Fund Balances - January 1	**6,023,063**	**1,102,222**	**617,952**	**310,570**	**8,053,807**
Increase (decrease) in inventories	**-**	**(74,146)**	**-**	**-**	**(74,146)**
Fund Balances - December 31	**$ 5,975,323**	**$ 1,267,025**	**$ 541,931**	**$ 389,960**	**$ 8,174,239**

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

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, 2015

Net change in fund balances - total governmental funds (Exhibit 5)			**$**	**194,578**
Amounts reported for governmental activities in the statement of activities are different because:				
In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in unavailable revenue.				
Unavailable revenue - December 31	$	2,384,908		
Unavailable revenue - January 1		(3,842,210)		(1,457,302)
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Also, in the statement of activities, only the gain or loss on the disposal of assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. Therefore, the change in net position differs from the change in fund balance by the net book value of the assets disposed.				
Capital outlay expenditures	$	5,531,533		
Net book value of assets disposed		(115)		
Current year depreciation		(1,756,498)		3,774,920
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued; whereas, these amounts are deferred and amortized in the statement of activities.				
Issuance of new debt - loans				(195,572)
Principal payments				
General obligation bonds	$	160,000		
Capital lease		78,583		
Loans payable		133,519		372,102
Amortization of premium and deferred amount of refunding				(1,952)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.				
Change in accrued interest payable	$	2,964		
Change in compensated absences payable		(9,736)		
Change in net OPEB asset		(1,010)		
Change in inventories		(74,146)		
Change in net pension obligation, as restated		(219,576)		
Change in net deferred pension outflows, as restated		408,114		
Change in net deferred pension inflows		(296,940)		(190,330)
Change in Net Position of Governmental Activities (Exhibit 2)			**$**	**2,496,444**

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

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PROPRIETARY FUND

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COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT 7

STATEMENT OF FUND NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2015

		Landfill Enterprise Fund
Assets		
Current assets		
Cash and pooled investments	$	245,929
Accounts receivable		50,973
Due from other governments		2,024
Restricted assets		
Cash and pooled investments		1,808,518
Total current assets	**$**	**2,107,444**
Noncurrent assets		
Capital assets		
Nondepreciable	$	163,882
Depreciable - net		1,061,270
Total noncurrent assets	**$**	**1,225,152**
Total Assets	**$**	**3,332,596**
Deferred Outflows of Resources		
Deferred pension outflows	**$**	**11,423**
Liabilities		
Current liabilities		
Accounts payable	$	82
Salaries payable		7,666
Loans payable - current		36,732
Compensated absences payable - current		2,671
Total current liabilities	**$**	**47,151**
Noncurrent liabilities		
Loans payable - long-term	$	136,130
Advances from other funds		220,000
Compensated absences payable - long-term		22,893
Estimated liability for landfill closure/postclosure		1,336,263
Pension liability		68,565
Total noncurrent liabilities	**$**	**1,783,851**
Total Liabilities	**$**	**1,831,002**

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

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT 7
(Continued)

STATEMENT OF FUND NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2015

	Landfill Enterprise Fund
Deferred Inflows of Resources	
Deferred pension inflows	**$ 5,042**
Net Position	
Net investment in capital assets	$ 832,290
Restricted for postclosure care	472,255
Unrestricted	203,430
Total Net Position	**$ 1,507,975**

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

EXHIBIT 8

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

		Landfill Enterprise Fund
Operating Revenues		
Charges for services	$	625,914
Licenses and permits		17
Miscellaneous		18,968
Total Operating Revenues	**$**	**644,899**
Operating Expenses		
Personal services	$	172,473
Professional services		11,458
Other services and charges		218,300
Utilities		10,046
Depreciation		144,526
Landfill closure and postclosure costs		(16,674)
Total Operating Expenses	**$**	**540,129**
Operating Income (Loss)	**$**	**104,770**
Nonoperating Expenses		
Interest expense		6,638
Income (Loss) Before Transfers	**$**	**98,132**
Transfers in		26,226
Change in Net Position	**$**	**124,358**
Net Position - January 1, as previously reported	$	1,442,892
Restatement (Note 1.E.)		(59,275)
Net Position - January 1, as restated	**$**	**1,383,617**
Net Position - December 31	**$**	**1,507,975**

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

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT 9

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2015
Increase (Decrease) in Cash and Cash Equivalents

	Landfill Enterprise Fund
Cash Flows from Operating Activities	
Receipts from customers and users	$ 631,566
Payments to suppliers	(149,948)
Payments to employees	(172,259)
Net cash provided by (used in) operating activities	**$ 309,359**
Cash Flows from Noncapital Financing Activities	
Transfers in	**$ 26,226**
Cash Flows from Capital and Related Financing Activities	
Interest expense	$ (6,638)
Payments on loan	(83,142)
Advance from other funds	220,000
Purchase of capital assets	(382,903)
Net cash provided by (used in) capital and related financing activities	**$ (252,683)**
Net Increase (Decrease) in Cash and Cash Equivalents	**$ 82,902**
Cash and Cash Equivalents - January 1	**1,971,545**
Cash and Cash Equivalents - December 31	**$ 2,054,447**
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position - Exhibit 7	
Cash and pooled investments	$ 245,929
Restricted cash and pooled investments	1,808,518
Total Cash and Cash Equivalents - December 31	**$ 2,054,447**

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2015
Increase (Decrease) in Cash and Cash Equivalents

		Landfill Enterprise Fund
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating income (loss)	**$**	**104,770**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation expense	$	144,526
Loss on disposal of capital assets		103,675
Landfill closure and postclosure costs		(16,674)
(Increase) decrease in accounts receivable		(13,831)
(Increase) decrease in due from other governments		308
(Increase) decrease in due from other funds		190
(Increase) decrease in deferred pension outflows		(6,436)
Increase (decrease) in accounts payable		(13,819)
Increase (decrease) in salaries payable		862
Increase (decrease) in compensated absences payable		(3,557)
Increase (decrease) in pension liability		4,303
Increase (decrease) in deferred pension inflows		5,042
Total adjustments	**$**	**204,589**
Net Cash Provided by (Used in) Operating Activities	**$**	**309,359**
Non-Cash Capital and Related Financing		
Carrying value of capital assets disposed of	**$**	**103,675**

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FIDUCIARY FUNDS

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COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2015

		Agency
Assets		
Cash and pooled investments	$	107,176
Due from other governments		178,368
Total Assets	**$**	**285,544**
Liabilities		
Due to other governments	**$**	**285,544**

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

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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, 2015. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

The County participates in joint ventures described in Note 7.B. The County also participates in jointly-governed organizations described in Note 7.C.

B. Basic Financial Statements

1. Government-Wide Statements

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

1. Summary of Significant Accounting Policies

   B. Basic Financial Statements

      1. Government-Wide Statements (Continued)

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

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

      2. Fund Financial Statements

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

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

1. Summary of Significant Accounting Policies

   B. Basic Financial Statements

      2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

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

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

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

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

The County reports the following major enterprise fund:

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

Additionally, the County reports the following fund type:

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

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

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

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

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

1. Cash and Cash Equivalents

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

1. Summary of Significant Accounting Policies

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled investments are reported at their fair value at December 31, 2015, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments of governmental funds are credited to the General Fund. Pooled investment earnings for 2015 were $133,770.

3. Receivables and Payables

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

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

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

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

1. Summary of Significant Accounting Policies

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

4. Special Assessments Receivable

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

5. Inventories

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

6. Restricted Assets

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

7. Capital Assets

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

1. Summary of Significant Accounting Policies

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

7. Capital Assets (Continued)

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

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

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

8. Compensated Absences

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

1. Summary of Significant Accounting Policies

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

9. Long-Term Obligations

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

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

10. Unearned Revenue

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

11. Deferred Outflows/Inflows of Resources

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

1. Summary of Significant Accounting Policies

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

11. Deferred Outflows/Inflows of Resources (Continued)

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

12. Pension Plan

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

13. Classification of Net Position

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

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

1. Summary of Significant Accounting Policies

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

13. Classification of Net Position (Continued)

Restricted - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted - the amount of net position that does not meet the definition of restricted or net investment in capital assets.

14. Classification of Fund Balances

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

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

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

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

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

1. Summary of Significant Accounting Policies

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

14. Classification of Fund Balances (Continued)

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

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

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

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

15. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make 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.

1. Summary of Significant Accounting Policies (Continued)

E. Change in Accounting Principles

During the year ended December 31, 2015, the County adopted new accounting guidance by implementing the provisions of GASB Statements 68, 71, and 82. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, requires governments providing defined benefit pensions to employees through pension plans administered through trusts to record their proportionate share of the net pension obligation as a liability on their financial statements along with related deferred outflows of resources, deferred inflows of resources, and pension expense. This statement also requires additional note disclosures and schedules in the required supplementary information.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, addresses an issue regarding amounts associated with contributions made to a pension plan after the measurement date of the net pension liability.

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statement No. 68*, modifies the measure of payroll that is presented in the required supplementary information schedules.

GASB Statements 68 and 71 require the County to report its proportionate share of the PERA total employers' unfunded pension liability. As a result, beginning net position has been restated to record the County's net pension liability and related deferred outflows of resources.

	Governmental Activities	Business-Type Activities
Net Position, January 1, 2015, as previously reported	$ 57,222,331	$ 1,442,892
Change in accounting principles	(2,614,608)	(59,275)
Net Position, January 1, 2015, as restated	$ 54,607,723	$ 1,383,617

2. Stewardship, Compliance, and Accountability

Deficit Fund Equity

On the full accrual basis of accounting, 9 of the 87 drainage systems have incurred expenses in excess of revenues and available resources. These deficits will be eliminated with future special assessment levies against benefited properties. The following summary shows the fund equity as of December 31, 2015, using the full accrual basis of accounting.

Account balances	$	671,899
Account balance deficit		(288,351)
Fund Equity - Full Accrual Basis	$	383,548

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

Account balances	$	696,384
Account balance deficit		(154,453)
Fund Balance - Modified Accrual Basis	$	541,931

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net position		
Governmental activities		
Cash and pooled investments	$	8,133,533
Business-type activities		
Cash and pooled investments		245,929
Cash and pooled investments - restricted assets		1,808,518
Statement of fiduciary net position		
Agency funds		
Cash and pooled investments		107,176
Total Cash and Investments	$	10,295,156

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County has adopted a policy for custodial credit risk by obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law. As of December 31, 2015, the County's deposits were not exposed to custodial credit risk.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

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

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

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

(4) bankers’ acceptances of United States banks;

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

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

3. Detailed Notes on All Funds

   A. Assets

      1. Deposits and Investments

         b. Investments (Continued)

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County has adopted a policy for custodial credit risk by permitting brokers that obtain investments for the County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. At December 31, 2015, none of the County's investments were subject to custodial credit risk.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

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

The following table presents the County's cash and investment balances at December 31, 2015, and information relating to potential investment risks:

	Credit Risk		Concentration Risk	Interest Rate Risk	
Investment Type	Credit Rating	Rating Agency	Over 5% of Portfolio	Maturity Date	Carrying (Fair) Value
U.S. government agency securities					
Federal National Mortgage Association note	AA-	S&P		10/09/2019	$ 106,492
Federal National Mortgage Association note (1)	AA+	S&P		10/17/2022	98,882
Federal National Mortgage Association note (1)	AA+	S&P		06/20/2028	100,021
Total Federal National Mortgage Association notes			5.1%		$ 305,395
Federal Home Loan Mortgage Corporation note (1)	AA+	S&P	N/A	11/24/2021	153,435
Negotiable certificates of deposit with brokers	N/A	N/A	N/A	Various	5,534,435
Total investments					$ 5,993,265
Checking					3,176,541
Savings					1,025,000
Petty cash and change funds					3,350
Certificates of deposit					97,000
Total Cash and Investments					$ 10,295,156

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

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2015, for the County's governmental activities and business-type activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	$ 67,442	$ -
Special assessments - delinquent	14,113	-
Special assessments - noncurrent	1,128,067	865,206
Accounts	42,276	-
Interest	1,561	-
Loans	148,334	138,129
Due from other governments	1,175,743	-
Total Governmental Activities	$ 2,577,536	$ 1,003,335
Business-Type Activities		
Accounts	$ 50,973	$ -
Due from other governments	2,024	-
Total Business-Type Activities	$ 52,997	$ -

Details on Loans Receivable

In 1989, Cottonwood County began a Seed Capital Loan Program with funds received from the Blandin Foundation, the Southwest Minnesota Initiative Fund, and local governments to provide low-interest, flexible-term loans for the development of new businesses or the expansion of existing ones. On March 26, 2013, the County Board approved the issuance of a $25,000 loan to the Windom Theater to be repaid at $430 per month at 1.25 percent interest for five years. At December 31, 2015, the outstanding loan balance was $14,359. On December 17, 2013, the County Board approved the issuance of a $15,000 loan to Donna Albrecht to be repaid at $150 per month at 1.25 percent interest for five years, with a final balloon payment. At December 31, 2015, the outstanding loan balance was $11,546.

3. Detailed Notes on All Funds

A. Assets

2. Receivables

Details on Loans Receivable (Continued)

In 2012, Cottonwood County agreed to loan the Southwest Mental Health Center $131,000 at two percent interest to help construct a new administrative building. Funds were issued to the Southwest Mental Health Center on May 23, 2013. At December 31, 2015, the outstanding loan balance was $122,429.

3. Capital Assets

Capital asset activity for the year ended December 31, 2015, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 315,824	$ 5,300	$ -	$ 321,124
Right-of-way	796,481	-	-	796,481
Total capital assets not depreciated	$ 1,112,305	$ 5,300	$ -	$ 1,117,605
Capital assets depreciated				
Buildings	$ 4,886,385	$ 71,700	$ 24,296	$ 4,933,789
Machinery and equipment	6,383,032	496,171	197,701	6,681,502
Infrastructure	60,104,909	4,958,362	-	65,063,271
Total capital assets depreciated	$ 71,374,326	$ 5,526,233	$ 221,997	$ 76,678,562
Less: accumulated depreciation for				
Buildings	$ 2,602,261	$ 91,789	$ 24,181	$ 2,669,869
Machinery and equipment	4,176,684	391,340	197,701	4,370,323
Infrastructure	17,952,806	1,273,369	-	19,226,175
Total accumulated depreciation	$ 24,731,751	$ 1,756,498	$ 221,882	$ 26,266,367
Total capital assets depreciated, net	$ 46,642,575	$ 3,769,735	$ 115	$ 50,412,195
Governmental Activities Capital Assets, Net	$ 47,754,880	$ 3,775,035	$ 115	$ 51,529,800

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 163,882	$ -	$ -	$ 163,882
Capital assets depreciated				
Buildings	$ 23,700	$ -	$ -	$ 23,700
Land improvements	2,363,085	-	-	2,363,085
Machinery and equipment	801,127	382,903	268,993	915,037
Total capital assets depreciated	$ 3,187,912	$ 382,903	$ 268,993	$ 3,301,822
Less: accumulated depreciation for				
Buildings	$ 23,700	$ -	$ -	$ 23,700
Land improvements	1,959,309	51,546	-	2,010,855
Machinery and equipment	278,335	92,980	165,318	205,997
Total accumulated depreciation	$ 2,261,344	$ 144,526	$ 165,318	$ 2,240,552
Total capital assets depreciated, net	$ 926,568	$ 238,377	$ 103,675	$ 1,061,270
Business-Type Activities Capital Assets, Net	$ 1,090,450	$ 238,377	$ 103,675	$ 1,225,152

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

Governmental Activities	
General government	$ 49,342
Public safety	109,916
Highways and streets, including depreciation of infrastructure assets	1,593,096
Conservation of natural resources	2,814
Culture and recreation	1,330
Total Depreciation Expense - Governmental Activities	$ 1,756,498
Business-Type Activities	
Landfill	$ 144,526

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2015, is as follows:

1. Advances To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Ditch	$ 213,851
General	Landfill	220,000
		$ 433,851

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

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2015, consisted of the following:

Transfers to Road and Bridge Fund from General Fund	$ 125,000	Provide funds for operations
Transfers to Landfill Fund from General Fund	26,226	Interest distribution
Total Interfund Transfers	$ 151,226	

3. Detailed Notes on All Funds (Continued)

C. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2015, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	$ 209,593	$ 82
Salaries	241,043	7,666
Contracts	54,570	-
Due to other governments	52,139	-
Total Payables	$ 557,345	$ 7,748

2. Other Postemployment Benefits (OPEB)

Elected Officials' Benefits

Elected County officials and their dependents and surviving spouses are entitled to one year of paid health insurance for every two years of service to the County. There is no maximum number of years for officials elected prior to 1995. Those elected after 1995 are restricted to a maximum of six years of coverage and, as of February 10, 2004, the maximum was reduced to four years. As of January 1, 2004, the maximum monthly contribution was set at $720. This post-service benefit is funded on a pay-as-you-go basis. The County had six elected officials who were eligible for this benefit in 2015. The cost for this program totaled $19,749 in 2015.

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

2. Other Postemployment Benefits (OPEB)

Elected Officials' Benefits (Continued)

The County also provides health insurance benefits for eligible retired employees and their spouses under a single-employer self-insured plan. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b. Retirees are required to pay 100 percent of the total premium cost. Since the premium is determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. This postemployment benefit is funded on a pay-as-you-go basis, usually paying retiree benefits out of the General Fund. At January 1, 2014, the date of the last valuation, there were approximately 107 participants in the plan, including 10 retirees. The implicit rate subsidy amount was determined by an actuarial study to be $16,523 for 2015.

Annual OPEB Cost and Net OPEB Obligation

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

ARC	$	34,999
Interest on net OPEB obligation (asset)		(799)
Adjustment to ARC		3,082
Annual OPEB cost (expense)	$	37,282
Contributions made during the year		(36,272)
Increase (decrease) in net OPEB obligation	$	1,010
Net OPEB Obligation (Asset) - January 1		(79,940)
Net OPEB Obligation (Asset) - December 31	$	(78,930)

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

2. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost; the percentage of annual OPEB cost contributed to the plan; and the net OPEB obligation for the years ended December 31, 2013, 2014, and 2015, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation (Asset)
December 31, 2013	$ 39,738	$ 44,123	111.0%	$ (85,136)
December 31, 2014	37,430	32,234	86.1	(79,940)
December 31, 2015	37,282	36,272	97.3	(78,930)

Funded Status and Funding Progress

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

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

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

2. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions

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

In the January 1, 2014, actuarial valuation, the projected unit credit actuarial method was used. The actuarial assumptions include a 1.0 percent investment rate of return (net of investment expenses), which is Cottonwood County's implicit rate of return on the General Fund. The medical plan cost trend rate is 3.5 percent. Neither rate includes an inflation assumption. The UAAL is being amortized over 30 years on a closed basis as a level dollar amount. The remaining amortization period at December 31, 2015, was 22 years.

3. Capital Lease

The County has entered into two capital lease agreements to finance equipment for the Highway Department. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The leases are as follows at December 31, 2015:

Capital Lease	Final Maturity	Installment Amount	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2015
2012 Case 1150K dozer	2016	$ 28,172	3.20	$ 156,285	$ 27,286
2012 John Deere motor graders	2019	60,736	3.05	377,077	225,259
Total Capital Leases Payable					$ 252,545

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

3. Capital Lease (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2015, were as follows:

Year Ending December 31	Governmental Activities
2016	$ 88,907
2017	60,736
2018	60,736
2019	60,736
Total minimum lease payments	$ 271,115
Less: amount representing interest	(18,570)
Present Value of Minimum Lease Payments	$ 252,545

4. Long-Term Debt

Governmental Activities

Bonds Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2015
Special assessment bonds with government commitment					
2011 G.O. Drainage Refunding Bonds	2020	$105,000 - $160,000	2.05	$ 1,090,000	$ 610,000
Add: unamortized premium					10,639
Total Governmental Activities, Net					$ 620,639

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

4. Long-Term Debt

Governmental Activities (Continued)

Loans Payable

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

5. Debt Service Requirements

Debt service requirements at December 31, 2015, were as follows:

Governmental Activities

Year Ending	Special Assessment Bonds		Loans Payable	
December 31	Principal	Interest	Principal	Interest
2016	$ 160,000	$ 10,917	$ 139,472	$ 7,739
2017	120,000	8,118	115,824	5,817
2018	115,000	5,768	86,847	4,705
2019	110,000	3,490	79,057	3,774
2020	105,000	1,181	80,353	2,832
2021 - 2025	-	-	224,394	3,933
2026	-	-	3,101	-
Total	$ 610,000	$ 29,474	$ 729,048	$ 28,800

Clean water loans in the amount of $142,377 are not included in the debt service requirements because a fixed repayment schedule is not available.

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

5. Debt Service Requirements

Governmental Activities (Continued)

Debt Refunding

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

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

Business-Type Activities

Loans Payable

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

Year Ending December 31	Loans Payable Principal	Loans Payable Interest
2016	$ 36,732	$ 4,696
2017	37,827	3,600
2018	98,303	1,961
Total	$ 172,862	$ 10,257

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2015, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable (fund liquidating the debt)					
G.O. Drainage Crossover Refund Bond 2011 (Ditch)	$ 770,000	$ -	$ 160,000	$ 610,000	$ 160,000
Add: unamortized premium	13,240	-	2,601	10,639	-
Total bonds payable	$ 783,240	$ -	$ 162,601	$ 620,639	$ 160,000
Loans payable	809,372	195,572	133,519	871,425	139,472
Capital lease	331,128	-	78,583	252,545	81,054
Compensated absences	583,287	265,085	255,349	593,023	61,971
Governmental Activities Long-Term Liabilities	$ 2,507,027	$ 460,657	$ 630,052	$ 2,337,632	$ 442,497

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

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Loans payable	$ 256,004	$ -	$ 83,142	$ 172,862	$ 36,732
Estimated liability for landfill closure and postclosure care	1,352,937	-	16,674	1,336,263	-
Compensated absences	29,121	6,259	9,816	25,564	2,671
Business-Type Activities Long-Term Liabilities	$ 1,638,062	$ 6,259	$ 109,632	$ 1,534,689	$ 39,403

3. Detailed Notes on All Funds (Continued)

C. Liabilities and Deferred Inflows of Resources (Continued)

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

Unearned revenue and deferred inflows of resources as of December 31, 2015, for the County's governmental funds are as follows:

	Unearned Revenue	Unavailable Revenue
Delinquent property taxes	$ -	$ 67,442
Special assessments receivable, delinquent and noncurrent	-	1,142,180
Highway allotments that do not provide current financial resources	-	1,155,868
Grants	50,050	19,418
Miscellaneous	7,250	-
Total Governmental Funds	$ 57,300	$ 2,384,908

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 $1,336,263 landfill closure and postclosure care liability at December 31, 2015, represents the cumulative amount reported to date based on the use of 69 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of $590,330 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2015.

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

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, 2015, the County has $1,808,518 in assets restricted for these purposes. Cottonwood County expects that future inflation costs will be paid from investment earnings on these annual contributions. However, if investment earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws and regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

5. Risk Management

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

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 $490,000 per claim in 2015 and $500,000 per claim in 2016. 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.

5. Risk Management (Continued)

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

6. Pension Plans

A. Defined Benefit Pension Plans

1. Plan Description

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

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

Police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. For members first hired after June 30, 2010, but before July 1, 2014, benefits vest on a graduated schedule starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years. Benefits for members first hired after June 30, 2014, vest on a prorated basis from 50 percent after 10 years and increasing 5 percent for each year of service until fully vested after 20 years.

6. Pension Plans

A. Defined Benefit Pension Plans

1. Plan Description (Continued)

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

2. Benefits Provided

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

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

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Fund Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent

6. Pension Plans

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent 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 General Employees Retirement Fund members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. For Public Employees Police and Fire Fund and Public Employees Correctional Fund members who were hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 55. Disability benefits are available for vested members and are based on years of service and average high-five salary.

3. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in 2015. Public Employees Police and Fire Fund members were required to contribute 10.80 percent of their annual covered salary in 2015. Public Employees Correctional Fund members were required to contribute 5.83 percent of their annual covered salary in 2015.

In 2015, the County was required to contribute the following percentages of annual covered salary:

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

6. Pension Plans

A. Defined Benefit Pension Plans

3. Contributions (Continued)

The General Employees Retirement Fund Coordinated Plan member and employer contribution rates each reflect a 0.25 percent increase from 2014. The Public Employees Police and Fire Fund member and employer contribution rates increased 0.60 percent and 0.90 percent, respectively, from 2014.

The County's contributions for the year ended December 31, 2015, to the pension plans were:

General Employees Retirement Fund	$	201,271
Public Employees Police and Fire Fund		96,819
Public Employees Correctional Fund		44,352

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

4. Pension Costs

General Employees Retirement Fund

At December 31, 2015, the County reported a liability of $2,285,491 for its proportionate share of the General Employees Retirement Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.0441 percent. It was 0.0456 percent measured as of June 30, 2014. The County recognized pension expense of $287,034 for its proportionate share of the General Employees Retirement Fund's pension expense.

6. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Fund (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 115,228
Difference between projected and actual investment earnings	216,357	-
Changes in proportion	-	52,847
Contributions paid to PERA subsequent to the measurement date	102,350	-
Total	$ 318,707	$ 168,075

A total of $102,350 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2016	$ (1,936)
2017	(1,936)
2018	(1,936)
2019	54,090

6. <u>Pension Plans</u>

A. <u>Defined Benefit Pension Plans</u>

4. <u>Pension Costs</u> (Continued)

<u>Public Employees Police and Fire Fund</u>

At December 31, 2015, the County reported a liability of $727,190 for its proportionate share of the Public Employees Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.064 percent. It was 0.062 percent measured as of June 30, 2014. The County recognized pension expense of $128,912 for its proportionate share of the Public Employees Police and Fire Fund's pension expense.

The County also recognized $5,760 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Public Employees Police and Fire Fund. Legislation requires the State of Minnesota to contribute $9.0 million to the Public Employees Police and Fire Fund each year, starting in fiscal year 2014, until the plan is 90 percent funded.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 117,926
Difference between projected and actual investment earnings	126,701	-
Changes in proportion	18,001	-
Contributions paid to PERA subsequent to the measurement date	49,294	-
Total	$ 193,996	$ 117,926

6. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Fund (Continued)

A total of $49,294 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2016	$ 12,090
2017	12,090
2018	12,090
2019	12,090
2020	(19,585)

Public Employees Correctional Fund

At December 31, 2015, the County reported a liability of $41,742 for its proportionate share of the Public Employees Correctional Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.27 percent. It was 0.25 percent measured as of June 30, 2014. The County recognized pension expense of $45,424 for its proportionate share of the Public Employees Correctional Fund's pension expense.

6. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Correctional Fund (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 15,981
Difference between projected and actual investment earnings	34,795	-
Changes in proportion	1,132	-
Contributions paid to PERA subsequent to the measurement date	22,581	-
Total	$ 58,508	$ 15,981

A total of $22,581 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2016	$ 3,749
2017	3,749
2018	3,749
2019	8,699

6. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended June 30, 2015, was $461,370.

5. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the individual entry age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.75 percent per year
Active member payroll growth	3.50 percent per year
Investment rate of return	7.90 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Fund and the Public Employees Police and Fire Fund, cost of living benefit increases for retirees are assumed to be 1.0 percent effective every January 1 through 2035 and 2037, respectively, and 2.5 percent thereafter. Cost of living benefit increases for retirees are assumed to be 2.5 percent for all years for the Public Employees Correctional Fund.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Fund was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. The experience study for the Public Employees Police and Fire Fund was for the period July 1 2004, through June 30, 2009. The experience study for the Public Employees Correctional Fund was for the period July 1, 2006, through June 30, 2011.

6. Pension Plans

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

In 2015, an updated experience study was done for PERA's General Employees Retirement Fund for the six-year period ending June 30, 2014, which would result in a larger pension liability. However, PERA will not implement the changes in assumptions until its June 30, 2016, estimate of pension liability.

The long-term expected rate of return on pension plan investments is 7.9 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

6. Discount Rate

The discount rate used to measure the total pension liability was 7.9 percent. The discount rate did not change since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

6. Pension Plans

A. Defined Benefit Pension Plans (Continued)

7. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Proportionate share of the General Employees Retirement Fund net pension liability	$ 3,593,604	$ 2,285,491	$ 1,205,190
Public Employees Police and Fire Fund net pension liability	1,417,300	727,190	157,038
Public Employees Correctional Fund net pension liability	290,698	41,742	(157,523)

8. Pension Plan Fiduciary Net Position

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

B. Defined Contribution Plan

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

6. Pension Plans

   B. Defined Contribution Plan (Continued)

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

      Total contributions by dollar amount and percentage of covered payroll made by Cottonwood County during the year ended December 31, 2015, were:

	Employee	Employer
Contribution amount	$ 6,247	$ 6,247
Percentage of covered payroll	5%	5%

7. Summary of Significant Contingencies and Other Items

   A. Contingent Liabilities

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

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

B. Joint Ventures

Des Moines Valley Health and Human Services

Des Moines Valley Health and Human Services (DVHHS) was formed pursuant to Minn. Stat. § 471.59 by Cottonwood and Jackson Counties. DVHHS began official operations on January 1, 2014, and performs human services and public health functions. Funding is provided by the member counties based on consideration of the population based on the most recent national census. DVHHS is governed by the Board of Commissioners made up of the five commissioners from each member county.

Financing is provided by state and federal grants and appropriations from member counties. Cottonwood County's contributions in 2015 for the health and human services function were $2,881,536.

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

Cottonwood County Family Services Collaborative

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

The Collaborative is financed primarily by state grants. Control of the Collaborative is vested in the Governing Board consisting of ten members. The Governing Board is composed of one member from each Executive Committee organization. The DVHHS acts as the fiscal agent for the Collaborative. During 2015, Cottonwood County provided $20,000 in funding to the Collaborative Integrated Fund.

Financial information can be obtained by contacting DVHHS at 11 Fourth Street, Windom, Minnesota 56111.

7. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Red Rock Rural Water System

The Red Rock Rural Water System was established pursuant to Minn. Stat. ch. 116A through a joint powers agreement pursuant to Minn. Stat. § 471.59 and under the jurisdiction of the Fifth Judicial District. Brown, Cottonwood, Jackson, Lyon, Martin, Murray, Redwood, and Watonwan Counties have agreed to guarantee their shares of debt arising within each respective county. The Red Rock Rural Water System provides water for participating rural water users and cities within the water district. The cost of providing these services is recovered through user charges.

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

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

Southwest Regional Solid Waste Commission

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

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

7. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwest Regional Solid Waste Commission (Continued)

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

Southwestern Minnesota Adult Mental Health Consortium Board

In November 1997, the Southwestern Minnesota Adult Mental Health Consortium Board was created under the authority of Minn. Stat. § 471.59. Presently, its members include Big Stone, Chippewa, Cottonwood, Jackson, Kandiyohi, Lac qui Parle, McLeod, Meeker, Nobles, Renville, Swift, and Yellow Medicine Counties; and Southwest Health and Human Services, representing Lincoln, Lyon, Murray, Pipestone, Redwood, and Rock Counties. The Board is headquartered in Windom, Minnesota. DVHHS acts as fiscal host.

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

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

Southwestern Mental Health Center, Inc.

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

7. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwestern Mental Health Center, Inc. (Continued)

For 2015, Cottonwood County paid a total of $2,040 to Southwestern Mental Health Center, Inc., for mental health services. Complete financial statements for the Southwestern Mental Health Center, Inc., can be obtained at 216 E. Luverne Street, Luverne, Minnesota 56156.

Rural Minnesota Energy Board

The Rural Minnesota Energy Board was established in 2005 under the authority of Minn. Stat. § 471.59. The purpose of the Board is to provide policy guidance on issues surrounding energy development in rural Minnesota. The focus of the Board includes, but is not limited to, renewable energy, wind energy, energy transmission lines, hydrogen energy technology, and bio-diesel and ethanol use. During 2015, Cottonwood County did not make any contributions to the Board.

Southwest Minnesota Regional Emergency Communications Board

As of August 23, 2013, the Southwest Minnesota Regional Radio Board changed its name to the Southwest Minnesota Regional Emergency Communications Board. The Southwest Minnesota Regional Radio Board Joint Powers Board was established April 22, 2008, between Cottonwood County, the Cities of Marshall and Worthington, and 12 other counties under authority of Minn. Stat. §§ 471.59 and 403.39. The purpose of the agreement is to formulate a regional radio board to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER).

Control is vested in a Joint Powers Board consisting of one County Commissioner and one City Council member for each party to the agreement. The members representing counties and cities are appointed by their respective governing bodies for the membership of that governing body. In addition, voting members of the Board include a member of the Southwest Minnesota Regional Advisory Committee, a member of the Southwest Minnesota Regional Radio System User Committee, and a member of the Southwest Minnesota Owners and Operators Committee.

Financing is provided by the appropriations from member parties and by state and federal grants. During 2015, Cottonwood County contributed $2,657 to the Joint Powers Board.

7. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Southern Prairie Community Care

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

Southwest Minnesota Private Industry Council, Inc.

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

SW MN PIC is governed by the Chief Elected Official Board, which is composed of one representative from each member county. Cottonwood County contributed $2,525 to this organization in 2015.

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

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

Cottonwood County, in conjunction with Lincoln, Lyon, Murray, Nobles, Redwood, and Rock Counties, and the Southwest Regional Development Commission, pursuant to Minn. Stat. § 471.59, have formed an agreement to coordinate the delivery of volunteer services to non-profit community service entities and local units of government meeting the guidelines for receiving volunteer services under the authority of the counties. The

7. Summary of Significant Contingencies and Other Items

B. Joint Ventures

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

entity known as Retired and Senior Volunteer Program of Southwest Minnesota (RSVP of Southwest Minnesota) changed its name to A.C.E. of Southwest Minnesota as of January 1, 2014. The Board comprises one voting member from each participating county and one voting member of the A.C.E. of Southwest Minnesota Advisory Council. In 2015, the County made contributions of $17,531 to the A.C.E. of Southwest Minnesota.

C. Jointly-Governed Organizations

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

Area II Minnesota River Basin Project

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

Greater Blue Earth River Basin Alliance

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

Redwood-Cottonwood Rivers Control Area

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

7. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Heron Lake Watershed District

The Heron Lake Watershed District was established to protect and improve water resources within the watershed border. The County Board is responsible for appointing two members of the Board of Managers for the Heron Lake Watershed District, but the County's responsibility does not extend beyond making the appointments. During the year, the County made payments of $4,941 to the District.

Region Five - Southwest Minnesota Homeland Security Emergency Management Organization

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

Minnesota Criminal Justice Data Communications Network

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

Sentencing to Serve

Cottonwood County, in conjunction with other local governments, participates in the State of Minnesota's Sentence to Serve (STS) program. STS is a project of the State Department of Administration's Strive Toward Excellence in Performance (STEP) program. STEP's goal is a statewide effort to make positive improvements in public services. It gives the courts an alternative to jail or fines for the nonviolent offenders who can work on a variety of community or state projects. Private funding, funds from various foundations and initiative funds, as well as the Departments of Corrections and

7. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations

Sentencing to Serve (Continued)

Natural Resources, provide the funds needed to operate the STS program. Although the County has no operational or financial control over the STS program, Cottonwood County budgets for a percentage of this program. During the year, the County contributed $89,343 to the program.

South Central Minnesota County Comprehensive Water Planning Project

The South Central Minnesota County Comprehensive Water Planning Project was established to provide regional water quality to Minnesota River Basin member counties. The project involves Blue Earth, Brown, Cottonwood, Faribault, Freeborn, Jackson, Le Sueur, Martin, Nicollet, Sibley, Steele, Waseca, and Watonwan Counties. The County did not contribute to the Project in 2015.

Southwest Minnesota Immunization Information Connection

The Southwest Minnesota Immunization Information Connection (SW-MIIC) Joint Powers Board promotes an implementation and maintenance of a regional immunization information system to ensure age-appropriate immunizations through complete and accurate records. The County did not contribute to the SW-MIIC during 2015.

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REQUIRED SUPPLEMENTARY INFORMATION

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COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT A-1

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Revenues				
Taxes	$ 7,418,368	$ 7,418,368	$ 7,096,178	$ (322,190)
Special assessments	337,600	337,600	312,621	(24,979)
Licenses and permits	11,960	11,960	22,510	10,550
Intergovernmental	1,034,778	1,034,778	1,422,024	387,246
Charges for services	181,895	181,895	224,936	43,041
Fines and forfeits	10,000	10,000	14,734	4,734
Gifts and contributions	-	-	15,000	15,000
Investment earnings	96,000	96,000	133,770	37,770
Miscellaneous	186,976	186,976	419,221	232,245
Total Revenues	**$ 9,277,577**	**$ 9,277,577**	**$ 9,660,994**	**$ 383,417**
Expenditures				
Current				
General government				
Commissioners	$ 427,597	$ 427,597	$ 392,786	$ 34,811
Courts	32,500	32,500	43,075	(10,575)
Law library	5,000	5,000	12,664	(7,664)
Auditor/treasurer	495,961	495,961	530,052	(34,091)
Assessor	403,494	403,494	382,424	21,070
Office of technology	155,457	168,610	170,134	(1,524)
Elections	74,860	74,860	72,795	2,065
Attorney	314,965	333,058	337,744	(4,686)
Recorder	235,870	235,870	247,127	(11,257)
Building and plant	156,491	156,491	142,214	14,277
Veterans service officer	114,243	114,243	108,597	5,646
Other general government	188,526	188,526	594,388	(405,862)
Total general government	**$ 2,604,964**	**$ 2,636,210**	**$ 3,034,000**	**$ (397,790)**
Public safety				
Sheriff	$ 1,230,017	$ 1,230,017	$ 1,250,325	$ (20,308)
Emergency services	95,796	95,796	86,241	9,555
Coroner	21,100	21,100	18,755	2,345
Safety program	9,610	9,610	9,536	74
Jail	1,026,432	1,026,432	1,105,370	(78,938)
Probation and parole	151,476	151,476	91,000	60,476
Total public safety	**$ 2,534,431**	**$ 2,534,431**	**$ 2,561,227**	**$ (26,796)**
Sanitation				
Recycling	**$ 294,482**	**$ 294,482**	**$ 267,278**	**$ 27,204**

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

EXHIBIT A-1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Health and human services				
Community health	$ -	$ -	$ 1,132	$ (1,132)
Environmental health	13,000	13,000	14,060	(1,060)
Total health and human services	**$ 13,000**	**$ 13,000**	**$ 15,192**	**$ (2,192)**
Culture and recreation				
Parks	$ 189,790	$ 189,790	$ 184,805	$ 4,985
Regional library	51,270	51,270	56,967	(5,697)
Total culture and recreation	**$ 241,060**	**$ 241,060**	**$ 241,772**	**$ (712)**
Conservation of natural resources				
Extension	$ 123,307	$ 123,307	$ 122,062	$ 1,245
Soil and water conservation	113,107	113,107	103,013	10,094
Water planning	159,727	159,727	84,271	75,456
Water quality loan program	-	-	192,822	(192,822)
Environmental services	104,384	104,384	106,659	(2,275)
Total conservation of natural resources	**$ 500,525**	**$ 500,525**	**$ 608,827**	**$ (108,302)**
Intergovernmental				
Health and human services	**$ 2,881,542**	**$ 2,881,542**	**$ 2,881,536**	**$ 6**
Debt service				
Principal	$ 194,000	$ 194,000	$ 133,519	$ 60,481
Interest	-	-	9,729	(9,729)
Total debt service	**$ 194,000**	**$ 194,000**	**$ 143,248**	**$ 50,752**
Total Expenditures	**$ 9,264,004**	**$ 9,295,250**	**$ 9,753,080**	**$ (457,830)**

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT A-1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Excess of Revenues Over (Under) Expenditures	**$ 13,573**	**$ (17,673)**	**$ (92,086)**	**$ (74,413)**
Other Financing Sources (Uses)				
Transfers out	$ -	$ -	$ (151,226)	$ (151,226)
Loans issued	-	-	195,572	195,572
Total Other Financing Sources (Uses)	**$ -**	**$ -**	**$ 44,346**	**$ 44,346**
Net Change in Fund Balance	**$ 13,573**	**$ (17,673)**	**$ (47,740)**	**$ (30,067)**
Fund Balance - January 1	**6,023,063**	**6,023,063**	**6,023,063**	**-**
Fund Balance - December 31	**$ 6,036,636**	**$ 6,005,390**	**$ 5,975,323**	**$ (30,067)**

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

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT A-2

BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 1,800,177	$ 1,800,177	$ 1,819,907	$ 19,730
Licenses and permits	5,000	5,000	8,058	3,058
Intergovernmental	6,495,807	6,495,807	6,606,851	111,044
Charges for services	-	-	51,457	51,457
Miscellaneous	179,203	179,203	138,380	(40,823)
Total Revenues	**$ 8,480,187**	**$ 8,480,187**	**$ 8,624,653**	**$ 144,466**
Expenditures				
Current				
Highways and streets				
Administration	$ 399,456	$ 399,456	$ 419,745	$ (20,289)
Maintenance	1,523,579	1,523,579	1,434,373	89,206
Construction	5,144,503	5,144,503	5,259,048	(114,545)
Equipment and maintenance shops	1,188,951	1,288,951	929,203	359,748
Total highways and streets	**$ 8,256,489**	**$ 8,356,489**	**$ 8,042,369**	**$ 314,120**
Intergovernmental				
Highways and streets	**$ 346,790**	**$ 346,790**	**$ 379,428**	**$ (32,638)**
Debt service				
Principal	$ -	$ -	$ 78,583	$ (78,583)
Interest	-	-	10,324	(10,324)
Total debt service	**$ -**	**$ -**	**$ 88,907**	**$ (88,907)**
Total Expenditures	**$ 8,603,279**	**$ 8,703,279**	**$ 8,510,704**	**$ 192,575**
Excess of Revenues Over (Under) Expenditures	**$ (123,092)**	**$ (223,092)**	**$ 113,949**	**$ 337,041**
Other Financing Sources (Uses)				
Transfers in	125,000	125,000	125,000	-
Net Change in Fund Balance	**$ 1,908**	**$ (98,092)**	**$ 238,949**	**$ 337,041**
Fund Balance - January 1	**1,102,222**	**1,102,222**	**1,102,222**	**-**
Increase (decrease) in inventories	**-**	**-**	**(74,146)**	**(74,146)**
Fund Balance - December 31	**$ 1,104,130**	**$ 1,004,130**	**$ 1,267,025**	**$ 262,895**

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

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT A-3

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2015

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

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

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT A-4

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2015

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0441%	$ 2,285,491	$ 2,661,420	85.87%	78.20%

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

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT A-5

SCHEDULE OF CONTRIBUTIONS

PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2015

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

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

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

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT A-6

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES POLICE AND FIRE FUND
DECEMBER 31, 2015

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.064%	$ 727,190	$ 581,888	124.97%	86.60%

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

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT A-7

SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES POLICE AND FIRE FUND
DECEMBER 31, 2015

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

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

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT A-8

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES CORRECTIONAL FUND
DECEMBER 31, 2015

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.27%	$ 41,742	$ 479,860	8.70%	96.90%

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

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT A-9

SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES CORRECTIONAL FUND
DECEMBER 31, 2015

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

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2015

1. General Budget Policies

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

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

2. Budget Basis of Accounting

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

3. Budget Amendments

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

	Original Budget	Increase (Decrease)	Final Budget
Expenditures			
General Fund	$ 9,264,004	$ 31,246	$ 9,295,250
Road and Bridge Special Revenue Fund	8,603,279	100,000	8,703,279

4. Excess of Expenditures Over Appropriations

   The following funds had expenditures in excess of appropriations (the legal level of budgetary control) for the year ended December 31, 2015:

Fund	Expenditures	Final Budget	Excess
General Fund	$ 9,753,080	$ 9,295,250	$ 457,830

4. Excess of Expenditures Over Appropriations (Continued)

   The expenditures in excess of budget were funded by unbudgeted revenues and fund balance. The primary reasons for the excess expenditures in the General Fund were attributable to the unbudgeted other general government and water quality loan program expenditures.

5. Other Postemployment Benefits Funded Status

   See Note 3.C.2. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

SUPPLEMENTARY INFORMATION

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COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT B-1

BUDGETARY COMPARISON SCHEDULE
BUILDING CAPITAL PROJECTS FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 50,000	$ 50,000	$ 48,322	$ (1,678)
Miscellaneous	65,400	65,400	92,865	27,465
Total Revenues	**$ 115,400**	**$ 115,400**	**$ 141,187**	**$ 25,787**
Expenditures				
Current				
General government				
Buildings and plant	115,400	115,400	61,797	53,603
Net Change in Fund Balance	**$ -**	**$ -**	**$ 79,390**	**$ 79,390**
Fund Balance - January 1	**310,570**	**310,570**	**310,570**	**-**
Fund Balance - December 31	**$ 310,570**	**$ 310,570**	**$ 389,960**	**$ 79,390**

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT C-1

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Balance January 1	Additions	Deductions	Balance December 31
AGENCY				
Assets				
Cash and pooled investments	$ 36,803	$ 191,685	$ 197,688	$ 30,800
Liabilities				
Due to other governments	$ 36,803	$ 191,685	$ 197,688	$ 30,800
MORTGAGE REGISTRY				
Assets				
Cash and pooled investments	$ 4,728	$ 616,738	$ 616,561	$ 4,905
Liabilities				
Due to other governments	$ 4,728	$ 616,738	$ 616,561	$ 4,905
STATE DEED TAX				
Assets				
Cash and pooled investments	$ 27,672	$ 186,850	$ 171,467	$ 43,055
Liabilities				
Due to other governments	$ 27,672	$ 186,850	$ 171,467	$ 43,055

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT C-1
(Continued)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Balance January 1	Additions	Deductions	Balance December 31
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	$ 166,017	$ 19,872,465	$ 20,010,066	$ 28,416
Due from other governments	-	178,368	-	178,368
Total Assets	**$ 166,017**	**$ 20,050,833**	**$ 20,010,066**	**$ 206,784**
Liabilities				
Due to other governments	**$ 166,017**	**$ 20,050,833**	**$ 20,010,066**	**$ 206,784**
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	$ 235,220	$ 20,867,738	$ 20,995,782	$ 107,176
Due from other governments	-	178,368	-	178,368
Total Assets	**$ 235,220**	**$ 21,046,106**	**$ 20,995,782**	**$ 285,544**
Liabilities				
Due to other governments	**$ 235,220**	**$ 21,046,106**	**$ 20,995,782**	**$ 285,544**

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT D-1

SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2015

Appropriations and Shared Revenue		
State		
Highway users tax	$	5,120,922
County program aid		236,696
PERA rate reimbursement		12,955
Disparity reduction aid		43,251
Police aid		71,780
Aquatic invasive species prevention aid		60,225
SCORE		69,692
Enhanced 911		83,374
Market value credit		287,173
Total appropriations and shared revenue	**$**	**5,986,068**
Reimbursement for Services		
State		
Minnesota Department of Human Services	**$**	**58,196**
Payments		
Local		
Payments in lieu of taxes	**$**	**227,014**
Grants		
State		
Minnesota Department/Board of		
Corrections	$	22,470
Public Safety		27,474
Natural Resources		114,774
Veterans Affairs		7,500
Water and Soil Resources		105,205
Total state	**$**	**277,423**
Federal		
Department of Transportation		1,480,174
Total state and federal grants	**$**	**1,757,597**
Total Intergovernmental Revenue	**$**	**8,028,875**

COTTONWOOD COUNTY
WINDOM, MINNESOTA

EXHIBIT D-2

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Pass-Through Identifying Number	Expenditures
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Highway Planning and Construction	20.205	00017	$ 1,468,819
Passed Through City of Worthington			
State and Community Highway Safety	20.600	A-ENFRC16-2016-WORTHIPD-00053	7,542
Total Federal Awards			**$ 1,476,361**

The County did not pass any federal awards through to subrecipients during the year ended December 31, 2015.

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

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COTTONWOOD COUNTY
WINDOM, MINNESOTA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Cottonwood County. The County's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Cottonwood County under programs of the federal government for the year ended December 31, 2015. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Cottonwood County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Cottonwood County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Cottonwood County has elected not to use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	$	1,480,174
Grants received more than 60 days after year-end, unavailable in 2015		
Highway Planning and Construction		19,418
Unavailable in 2014, recognized as revenue in 2015		
Highway Planning and Construction		(23,231)
Expenditures Per Schedule of Expenditures of Federal Awards	$	1,476,361

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Management and Compliance Section

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COTTONWOOD COUNTY
WINDOM, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **None reported**

Noncompliance material to the financial statements noted? **No**

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **None reported**

Type of auditor's report issued on compliance for major federal programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **No**

The major federal program is:

Highway Planning and Construction	CFDA #20.205

The threshold for distinguishing between Types A and B programs was $750,000.

Cottonwood County qualified as a low-risk auditee? **No**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2006-006

Audit Adjustments

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

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

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

Effect: The following audit adjustments were necessary to be recorded for December 31, 2015:

- Adjustments were made in the General Fund to reclassify the unassigned fund balance of $354,896 to nonspendable, restricted, and assigned fund balance amounts based on changes in fund activity during the year.

- An adjustment of $87,741 was made in the Landfill Enterprise Fund to reclassify debt payments as a reduction in loans and interest expense.

- Adjustments of $16,624 and $178,368 were made in the Taxes and Penalties Agency Fund to increase cash for a correction of prior year tax settlements and increase due from other governments for an overpayment made to the Minnesota Department of Revenue.

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

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

Client's Response:

The County will comply with recommendations.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 1996-006

Individual Ditch System Deficits

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

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

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

Context: Of the County's 87 ditches, at December 31, 2015, 1 ditch system had a negative cash balance of $640, and 9 ditch systems had deficit fund balances totaling $288,351.

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

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

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

Client's Response:

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

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

Independent Auditor's Report

Board of County Commissioners
Cottonwood County
Windom, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Cottonwood County, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated May 4, 2016.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2006-006 to be a material weakness.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

In connection with our audit, nothing came to our attention that caused us to believe that Cottonwood County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties,* except as described in the Schedule of Findings and Questioned Costs as item 1996-006. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Cottonwood County's Response to Findings

Cottonwood County's responses to the internal control and legal compliance findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

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

/s/Rebecca Otto | */s/Greg Hierlinger*

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

May 4, 2016

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Board of County Commissioners
Cottonwood County
Windom, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Cottonwood County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the County's major federal program for the year ended December 31, 2015. Cottonwood County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility
Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for Cottonwood County's major federal program based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Cottonwood County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2015.

Report on Internal Control Over Compliance

Management of Cottonwood County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

May 4, 2016