

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA

YEAR ENDED DECEMBER 31, 2010

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

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

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

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

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

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

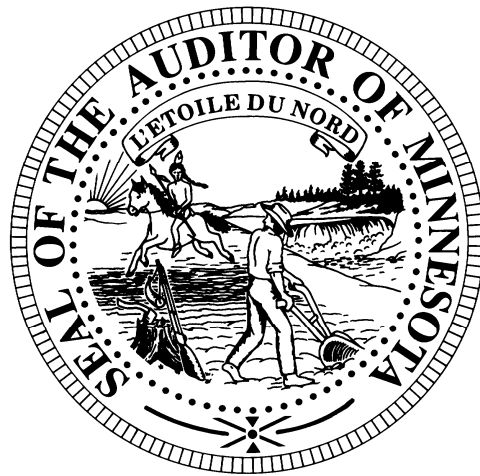
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

Year Ended December 31, 2010



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

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

ORGANIZATION
2010

Office	Name	Term Expires
Commissioners		
1st District	Lon Walling	January 2013
2nd District	John Schueller, Chair	January 2011
3rd District	Al Kokesch	January 2011
4th District	Priscilla Klabunde	January 2011
5th District	Gary Dahms, Vice Chair	January 2013
County Officers		
Elected		
Attorney	Patrick Rohland ²	January 2011
Auditor-Treasurer	Jean Price ¹	January 2011
District Court Judge	David W. Peterson	January 2011
Recorder	Joyce Anderson	January 2011
Sheriff	Randy Hanson ³	January 2011
Appointed		
Administrator	Vicki Knobloch	Indefinite
Assessor	Kathy Hillmer	Indefinite
Environmental Services Director	Jon Mitchell	Indefinite
Highway Engineer	William Rabenberg	Indefinite
License Center Director	Deb Tholkes	Indefinite
Maintenance Supervisor	Loren Gewerth	Indefinite
Medical Examiner	Dr. Dennis P. Nelson	Indefinite
Public Health Nursing	Genie Simon	Indefinite
Veterans Service Officer	Martin Caraway	Indefinite
Human Services Director	Patrick Bruflat	Indefinite

¹Jean Price was appointed as Auditor-Treasurer effective March 25, 2008, to fill the remaining term of Larry Bunting, who resigned effective February 2, 2008.

²Patrick Rohland was appointed as Attorney effective August 15, 2008, to fill the remaining term of Michelle Dietrich, who resigned effective August 15, 2008.

³Randy Hanson was appointed as Sheriff effective February 3, 2009, to fill the remaining term of Richard Morris, who resigned effective January 31, 2009.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Redwood County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Redwood County, Minnesota, as of and for the year ended December 31, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Redwood County as of December 31, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such

information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Redwood County's basic financial statements taken as a whole. The supplementary information, including the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, listed in the table of contents are presented for purposes of additional analysis and are 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. This 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2011, on our consideration of Redwood County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 15, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010
(Unaudited)**

The Management's Discussion and Analysis (MD&A) provides an overview and analysis of the County's financial activities for the fiscal year ended December 31, 2010. 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 County's basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

Governmental activities' total net assets are \$82,050,542, of which \$62,196,794 is invested in capital assets, net of related debt, and \$3,940,251 is restricted to specific purposes. The \$15,913,497 remaining may be used to meet the County's ongoing obligations to citizens and creditors.

The County's net assets increased by \$3,412,101 for the year ended December 31, 2010. A large part of the increase is attributable to the County's investing in capital assets, net of accumulated depreciation.

The net cost of governmental activities for the current fiscal year was \$7,895,068. The net cost was funded by general revenues totaling \$11,307,169.

Fund balances of the governmental funds increased by \$3,291,683. Most of the increase was due to an increase in revenues and a decrease in expenditures in each of the funds compared to the budgeted amounts.

For the year ended December 31, 2010, the unreserved fund balance of the General Fund was \$4,900,115, or 76.5 percent, of the total General Fund expenditures for the year, an increase of 9 percent.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. The basic financial statements consist of three parts: (1) government-wide financial statements, (2) fund level financial statements, and (3) notes to the financial statements. This report also contains other required supplementary information.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the County's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all assets and liabilities of the County using the accrual basis of accounting, with the difference being reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial health of the County is improving or deteriorating. You will need to consider other nonfinancial factors, such as changes in the County's property tax base and the condition of County roads and other capital assets, to assess the overall health of the County.

The statement of activities presents the County's governmental activities. Most of the basic services are reported here, including general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development. Property taxes and state and federal grants finance most of these activities. The County has no business-type activities or discretely presented component units for which the County is legally accountable.

The government-wide financial statements are Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund level financial statements provide detailed information about the 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.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using modified accrual accounting. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County adopts an annual appropriated budget for its General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, Public Health Services Special Revenue Fund, Solid Waste Special Revenue Fund, Building Special Revenue Fund, Ditch Special Revenue Fund, and Debt Service Fund. A budgetary comparison statement has been provided as required or other supplementary information for each of these funds to demonstrate compliance with this budget.

The basic governmental fund financial statements are Exhibits 3 through 6 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside of the County. Fiduciary funds are not reflected in the government-wide statements because the resources of these funds are not available to support the County's own programs or activities. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All fiduciary activities are reported in a separate statement of fiduciary net assets shown as Exhibit 7.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. The County's assets exceeded liabilities by \$82,050,542 at the close of 2010. The largest portion of the net assets (75.8 percent) reflects its investment in capital assets (for example: land, buildings, equipment, and infrastructure such as roads and bridges). However, it should be noted that these assets are not available for future spending. Comparative data with 2009 is presented.

Table 1
Governmental Activities
Net Assets
(in thousands)

	2010	2009
Assets		
Current and other assets	\$ 23,779	\$ 21,348
Capital assets	65,732	65,211
Total Assets	\$ 89,511	\$ 86,559
Liabilities		
Long-term liabilities	\$ 5,610	\$ 5,897
Other liabilities	1,850	2,024
Total Liabilities	\$ 7,460	\$ 7,921
Net Assets		
Invested in capital assets, net of related debt	\$ 62,197	\$ 61,361
Restricted	3,940	3,330
Unrestricted	15,914	13,947
Total Net Assets	\$ 82,051	\$ 78,638

Unrestricted net assets--the part of net assets that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements--are 19.4 percent of the net assets.

Governmental Activities

The County's activities increased net assets by 4.3 percent (\$78,638,441 for 2009 compared to \$82,050,542 for 2010). Key elements in this increase in net assets are as follows for 2010, with comparative data for 2009.

Table 2
Governmental Activities
Changes in Net Assets
(in thousands)

	2010	2009
Revenues		
Program revenues		
Charges for services	\$ 2,948	\$ 2,612
Operating grants and contributions	7,954	7,774
Capital grants and contributions	263	991
General revenues		
Property taxes	9,742	9,769
Other	1,565	2,027
Total Revenues	\$ 22,472	\$ 23,173
Expenses		
General government	\$ 2,985	\$ 2,994
Public safety	2,585	2,683
Highways	4,910	4,276
Sanitation	570	639
Human services	5,091	5,244
Health	1,503	1,393
Culture and recreation	402	352
Conservation of natural resources	734	723
Economic development	69	62
Interest	210	234
Total Expenses	\$ 19,059	\$ 18,600
Increase in Net Assets	\$ 3,413	\$ 4,573
Net Assets - January 1	78,638	74,065
Net Assets - December 31	\$ 82,051	\$ 78,638

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

The focus of the County's governmental funds is to provide information on short-term inflows, outflows, and the balances left at year-end that are available for spending. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$20,505,256, an increase of \$3,291,683 in comparison with the prior year. Of the combined ending fund balances, \$16,695,004 represents unreserved fund balance which is available for spending at the County's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for various reasons either by state law, grant agreements, or bond covenants.

The General Fund is the main operating fund for the County. At the end of the current fiscal year, it had an unreserved fund balance of \$4,900,115. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. The General Fund's unreserved fund balance represents 76.5 percent of total General Fund expenditures. During 2010, the ending fund balance increased by \$823,667, primarily due to receiving \$563,146 more in revenues than was expected.

The Road and Bridge Special Revenue Fund had an unreserved fund balance of \$2,133,974 at fiscal year-end, representing 40.2 percent of its annual expenditures. The ending fund balance increased \$1,461,346 during 2010, primarily due to receiving state revenue for 2010 projects that were not completed during the year.

The Human Services Special Revenue Fund had an unreserved fund balance of \$2,325,871 at fiscal year-end, representing 45.5 percent of its annual expenditures. The ending fund balance increased \$124,354 during 2010, primarily due to spending less than was budgeted.

The Public Health Service Special Revenue Fund had an unreserved fund balance of \$1,501,142 at fiscal year-end, representing 100 percent of its annual expenditures. The ending balance increased \$54,020 during 2010, primarily due to more revenues collected than expected.

The Solid Waste Special Revenue Fund had an unreserved fund balance of \$1,032,491 at fiscal year-end, representing 186 percent of its annual expenditures. The ending fund balance increased \$198,198 during 2010, primarily due to receiving more miscellaneous revenue than expected.

The Building Special Revenue Fund's ending fund balance increased by \$571,039 during 2010, primarily due to spending less than was budgeted.

The Ditch Special Revenue Fund had an unreserved fund balance of \$2,959,901 at fiscal year-end. The ending fund balance increased \$9,209 during 2010, primarily due to spending less than was budgeted.

The Debt Service Fund had an unreserved fund balance of \$782,010 at fiscal year-end. The Debt Service Fund was created in 2008 due to the issuance of bonds for the renovation of the Government Center, remodeling of the Courthouse, and the purchase of equipment.

Governmental Activities

The County's total revenues were \$22,472,274. Table 3 presents the percent of total County revenues by source for the year ended December 31, 2010.

Table 3
Total County Revenues

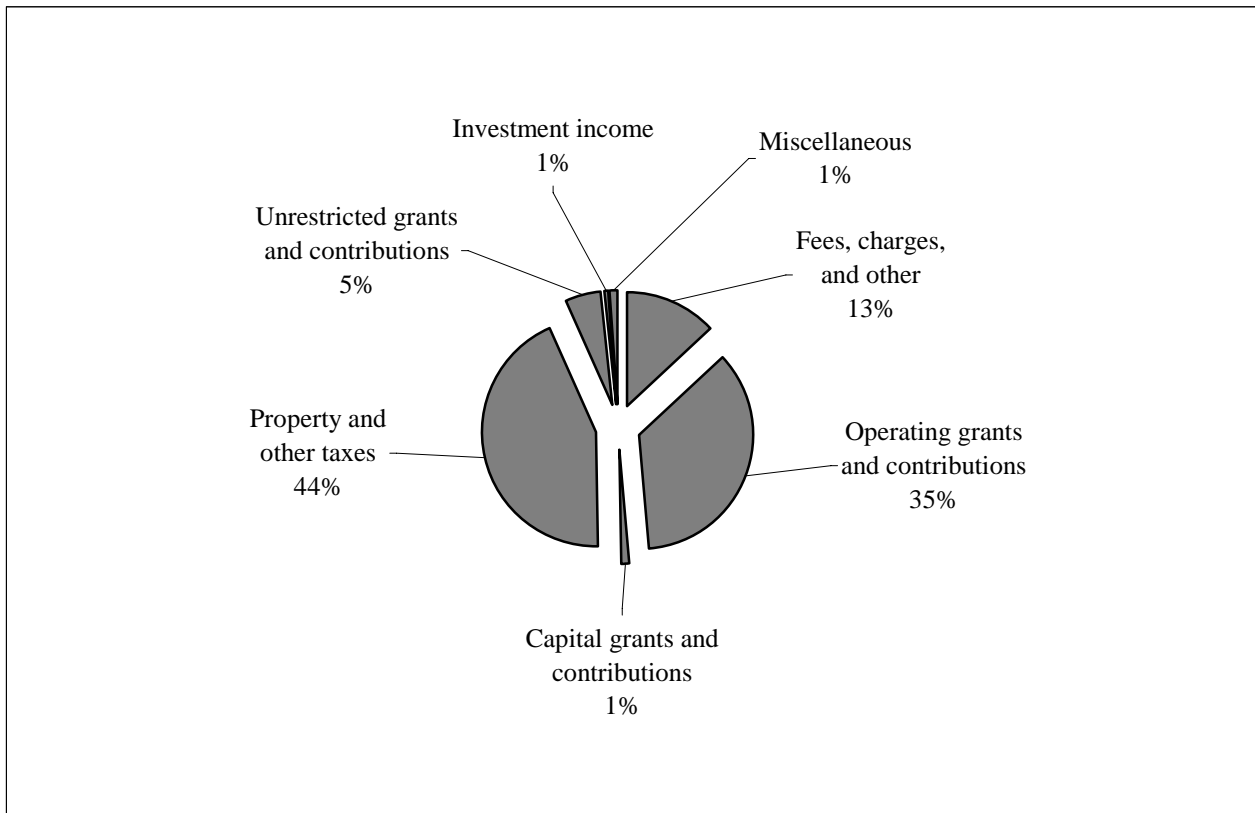
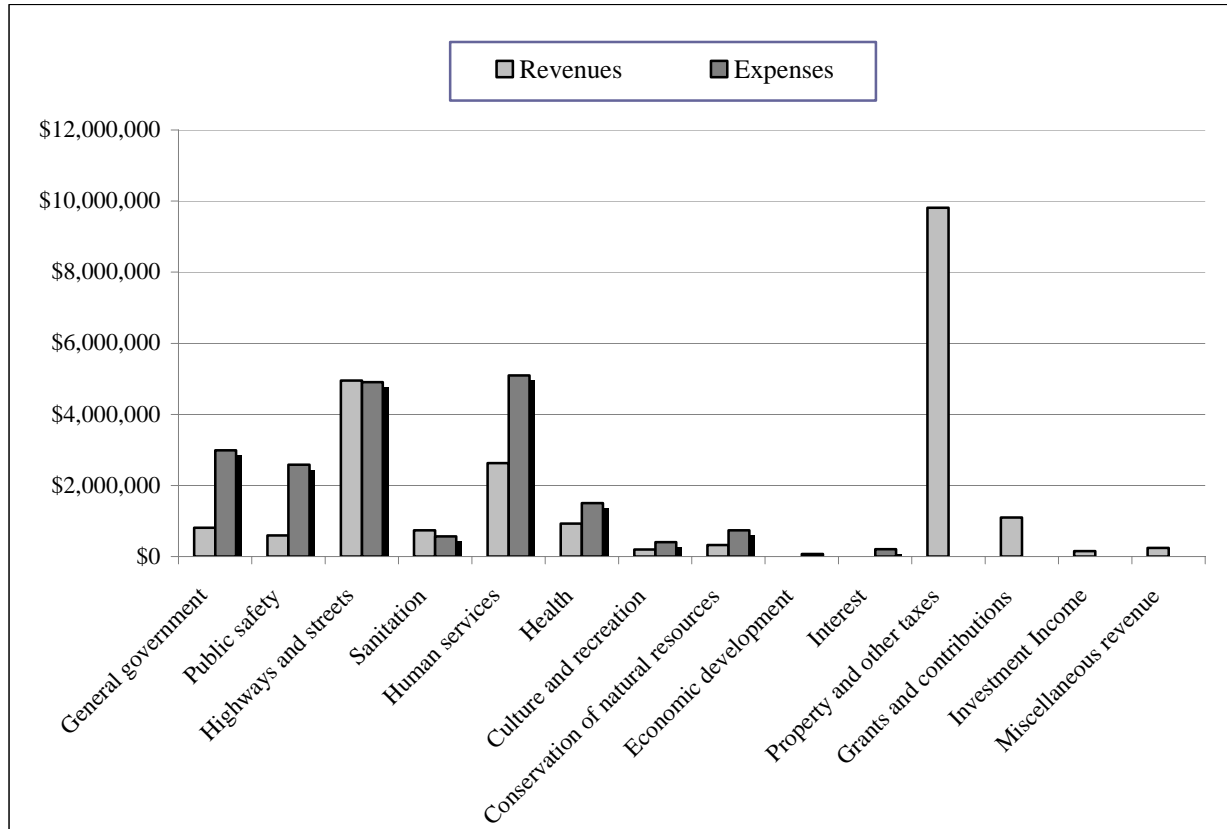


Table 4 presents the cost and revenue of each program, as well as the County’s general revenues.

Total revenues for the County were \$22,472,274, while total expenses were \$19,060,173. This reflects a \$3,412,101 increase in net assets for the year ended December 31, 2010.

**Table 4
Program Revenues and Expenses**



The cost of all governmental activities this year was \$19,060,173. However, as shown on the Statement of Activities (Exhibit 2), the amount that our taxpayers ultimately financed for these activities through County taxes was only \$9,741,796, because some of the cost was paid by those who directly benefited from the programs (\$2,947,916) or by other governments and organizations that subsidized certain programs with grants and contributions (\$8,217,189). The County paid for the remaining “public benefit” portion of governmental activities with general revenues, primarily taxes (some of which could be used only for certain programs) and other revenues, such as grants and contributions not restricted to specific programs, and interest.

Table 5 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 activity). The net cost shows the financial burden that was placed on the County’s taxpayers by each of these functions.

**Table 5
Governmental Activities**

	Total Cost of Services 2010	Net Cost of Services 2010
Human services	\$ 5,091,365	\$ 2,465,245
Highways and streets	4,910,267	(44,158)
General government	2,984,837	2,173,966
Public safety	2,584,785	1,993,358
Health	1,503,363	579,239
All others	1,985,556	727,418
Totals	<u>\$ 19,060,173</u>	<u>\$ 7,895,068</u>

General Fund Budgetary Highlights

Over the course of the year, the County Board made changes to revise the General Fund budget.

The actual charges to appropriations (expenditures) were \$341,850 less than the final budget amounts. One of the most significant positive variances (\$287,855) occurred in Public Safety - Sheriff, where the costs to operate were less than anticipated, resulting in a 12.9 percent reduction in expected expenditures. Reasons for other significant variances of actual expenditures from final budget include overall departmental and staff changes.

On the other hand, resources available for appropriation were also \$563,146 above the final budgeted amount. Greater than expected collections for miscellaneous items, charges for services, and intergovernmental revenues accounted for most of the increase.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County’s capital assets for its governmental activities at December 31, 2010, totaled \$65,731,508 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than building, equipment, and infrastructure. The investment in capital assets increased \$519,823, or 1 percent, from the previous year. The major capital asset events were:

Construction of highways and streets	\$ 662,523
Construction in progress	2,196,199

Table 6
Capital Assets at Year-End
(Net of Depreciation, in thousands)

	2010	2009
Land	\$ 1,773	\$ 1,763
Infrastructure	53,174	53,561
Buildings	2,245	2,245
Improvements other than building	492	518
Machinery and equipment	2,067	2,117
Construction in progress	5,980	5,008
Totals	<u>\$ 65,731</u>	<u>\$ 65,212</u>

Additional information about the County's capital assets can be found in the Note 2.A.2. to the financial statements.

Long-Term Debt

The County has a net debt at December 31, 2010, of \$4,414,569. The debt is for financing the renovation of the Government Center and remodeling of the Courthouse (15-year term with final payment February 1, 2024); the purchase of equipment (5-year term with final payment February 1, 2014); and lease agreements for financing squad cars for the Sheriff's Department and copiers for various departments.

Table 7
Outstanding Debt

	2010	2009
General obligation improvement bonds	\$ 3,725,199	\$ 3,893,291
General obligation certificates of indebtedness	586,544	715,392
Leased squad and human service cars	89,838	107,400
Leased copiers	12,988	16,262
Totals	<u>\$ 4,414,569</u>	<u>\$ 4,732,345</u>

Minnesota statutes limit the amount of debt a county may levy to 3 percent of its total market value. At the end of 2010, the County's outstanding debt was 0.17 percent of its total estimated market value.

Additional information on the County's long-term debt can be found in Note 2.C. to the notes to the financial statements of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The County's elected and appointed officials considered many factors when setting the 2011 budget, tax rates, and fees that will be charged for the year.

- The average unemployment rate for Redwood County at the end of 2010 was 6.4 percent. This was slightly below the state unemployment rate of 7.3 percent and shows a decrease from the County's 7.0 percent rate of one year ago. The 2010 County population is estimated at 16,059, a decrease of 756 from the 2000 census of 16,815.
- At the end of 2010, Redwood County set its 2011 revenue and expenditure budgets.
- The property tax levy for the County decreased 2.9 percent (\$328,549) from 2010. With the state aid decreasing by \$328,549, the net tax levy (the amount spread to taxpayers) remained the same for 2011.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Redwood County's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the County's Auditor-Treasurer, Jean Price, Redwood County Government Center, 403 South Mill Street, Box 130, Redwood Falls, Minnesota 56283.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2010**

Assets

Current assets

Cash and pooled investments	\$ 13,733,910
Investments	6,922,854
Taxes receivable	
Prior - net	145,155
Special assessments receivable	
Current - net	70,363
Prior - net	38,831
Noncurrent - net	267,080
Accounts receivable - net	242,168
Accrued interest receivable	19,954
Due from other governments	1,939,822
Loans receivable	27,784
Inventories	167,993
Prepaid items	60,063

Noncurrent assets

Deferred charges	36,994
Long-term receivables	106,528

Capital assets

Non-depreciable	7,752,842
Depreciable - net of accumulated depreciation	<u>57,978,666</u>

Total Assets **\$ 89,511,007**

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

***EXHIBIT 1
(Continued)***

**STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2010**

Liabilities

Current liabilities

Accounts payable	\$	395,511
Salaries payable		374,668
Contracts payable		183,373
Due to other governments		165,467
Accrued interest payable		67,886
Deferred revenue - unearned		88,539
Compensated absences payable - current		65,367
Other postemployment benefits payable - current		72,822
General obligation bonds payable - current		205,000
General obligation certificates of indebtedness payable - current		140,000
Capital leases payable - current		33,997
Loans payable - current		57,236

Noncurrent liabilities

Compensated absences payable		867,119
Other postemployment benefits payable		304,003
Capital leases payable		68,829
General obligation bonds payable - net		3,520,199
General obligation certificates of indebtedness payable - net		446,544
Loans payable		403,905

Total Liabilities

\$ 7,460,465

Net Assets

Invested in capital assets - net of related debt	\$	62,196,794
Restricted for		
Public safety		443,006
Highways and streets		2,424,275
Debt service		721,039
Other purposes		351,931
Unrestricted		15,913,497

Total Net Assets

\$ 82,050,542

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Program Revenues			Net (Expense)
Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
<u>Functions/Programs</u>				
Primary government				
Governmental activities				
General government	\$ 2,984,837	\$ 666,454	\$ 144,417	\$ -
Public safety	2,584,785	259,907	331,520	-
Highways and streets	4,910,267	44,345	4,646,658	263,422
Sanitation	569,659	681,889	55,950	-
Human services	5,091,365	371,219	2,254,901	-
Health	1,503,363	586,202	337,922	-
Culture and recreation	402,354	65,410	133,286	-
Conservation of natural resources	733,916	272,490	49,113	-
Economic development	69,234	-	-	-
Interest	210,393	-	-	-
Total Governmental Activities	\$ 19,060,173	\$ 2,947,916	\$ 7,953,767	\$ 263,422
 General Revenues				
Property taxes				\$ 9,741,796
Other taxes				8,850
Payments in lieu of tax				58,939
Grants and contributions not restricted to specific programs				1,095,580
Investment income				156,490
Miscellaneous				245,514
Total general revenues				\$ 11,307,169
Change in net assets				\$ 3,412,101
Net Assets - Beginning				78,638,441
Net Assets - Ending				\$ 82,050,542

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>
<u>Assets</u>			
Cash and pooled investments	\$ 2,793,543	\$ 3,579,748	\$ 2,235,794
Petty cash and change funds	1,860	-	-
Undistributed cash in agency fund	166,966	35,223	68,501
Investments	3,155,926	-	-
Taxes receivable			
Delinquent	68,578	18,945	36,307
Special assessments receivable			
Delinquent	4,593	-	-
Noncurrent	308,657	-	-
Accounts receivable	21,260	6,809	129,916
Accrued interest receivable	11,209	-	-
Due from other funds	27,072	1,124	-
Due from other governments	83,418	1,420,824	342,790
Loans receivable	99,593	-	-
Inventories	-	167,993	-
Prepaid items	18,104	29,909	3,767
Total Assets	<u>\$ 6,760,779</u>	<u>\$ 5,260,575</u>	<u>\$ 2,817,075</u>

EXHIBIT 3

<u>Public Health Services</u>	<u>Solid Waste</u>	<u>Building</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
\$ 1,465,831	\$ 609,369	\$ 1,746,493	\$ 467,834	\$ 487,231	\$ 13,385,843
200	30	-	-	-	2,090
15,696	25,282	14,824	5,835	13,650	345,977
-	469,500	496,000	2,520,299	281,129	6,922,854
8,363	-	6,779	-	6,183	145,155
-	32,608	-	1,630	-	38,831
-	-	-	28,786	-	337,443
57,581	26,602	-	-	-	242,168
447	3,614	837	3,115	732	19,954
2,528	-	-	-	-	30,724
60,198	-	6,616	25,976	-	1,939,822
-	-	34,719	-	-	134,312
-	-	-	-	-	167,993
1,766	380	5,766	371	-	60,063
<u>\$ 1,612,610</u>	<u>\$ 1,167,385</u>	<u>\$ 2,312,034</u>	<u>\$ 3,053,846</u>	<u>\$ 788,925</u>	<u>\$ 23,773,229</u>

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 90,238	\$ 37,368	\$ 222,908
Salaries payable	171,436	66,088	88,818
Contracts payable	-	109,506	-
Due to other funds	2,249	273	15,132
Due to other governments	40,663	12,721	43,137
Deferred revenue - unavailable	388,082	1,412,188	117,442
Deferred revenue - unearned	64,023	-	-
Total Liabilities	\$ 756,691	\$ 1,638,144	\$ 487,437
Fund Balances			
Reserved for			
Inventories	\$ -	\$ 167,993	\$ -
Loans receivable	99,593	-	-
Prepaid items	18,104	29,909	3,767
Missing heirs	1,552	-	-
Recorder's technology fund	126,076	-	-
Recorder's equipment	168,004	-	-
Enhanced 911	375,126	-	-
Sheriff's contingency	2,990	-	-
Sheriff's forfeited property	16,222	-	-
Sheriff's DWI assessment	21,082	-	-
Attorney's forfeited property	5,996	-	-
Victim assistance	23,254	-	-
Gun permit fees	24,252	-	-
Highway allotments	-	1,260,555	-
Septic/sewer loans	152,484	-	-
VSO grants	518	-	-
Restricted contributions	-	30,000	-
Encumbrances	36,349	-	-
Election equipment grant	10,781	-	-
Unspent grant monies	21,590	-	-
2008A General Obligation Bond	-	-	-
2008B General Obligation Equipment Certificate	-	-	-
Unreserved			
Designated for future expenditures	4,128,974	1,904,538	2,113,771
Designated for debt service	-	-	-
Designated for compensated absences	380,769	210,086	212,100
Designated for postemployment benefits	378,422	19,350	-
Designated for future loans	-	-	-
Designated for VEBA and HSA health plans	11,950	-	-
Designated for capital projects	-	-	-
Total Fund Balances	\$ 6,004,088	\$ 3,622,431	\$ 2,329,638
Total Liabilities and Fund Balances	\$ 6,760,779	\$ 5,260,575	\$ 2,817,075

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

EXHIBIT 3
(Continued)

<u>Public Health Services</u>	<u>Solid Waste</u>	<u>Building</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
\$ 3,446	\$ 17,776	\$ 4,223	\$ 19,552	\$ -	\$ 395,511
40,834	7,492	-	-	-	374,668
-	-	73,867	-	-	183,373
273	4,351	252	8,194	-	30,724
39,427	96	38	29,385	-	165,467
25,722	35,283	7,616	36,443	6,915	2,029,691
-	24,516	-	-	-	88,539
\$ 109,702	\$ 89,514	\$ 85,996	\$ 93,574	\$ 6,915	\$ 3,267,973
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 167,993
-	-	34,719	-	-	134,312
1,766	380	5,766	371	-	60,063
-	-	-	-	-	1,552
-	-	-	-	-	126,076
-	-	-	-	-	168,004
-	-	-	-	-	375,126
-	-	-	-	-	2,990
-	-	-	-	-	16,222
-	-	-	-	-	21,082
-	-	-	-	-	5,996
-	-	-	-	-	23,254
-	-	-	-	-	24,252
-	-	-	-	-	1,260,555
-	-	-	-	-	152,484
-	-	-	-	-	518
-	-	-	-	-	30,000
-	-	391,401	-	-	427,750
-	-	-	-	-	10,781
-	45,000	-	-	-	66,590
-	-	536,870	-	-	536,870
-	-	197,782	-	-	197,782
1,381,635	1,022,467	574,247	2,061,010	-	13,186,642
-	-	-	-	782,010	782,010
119,507	10,024	-	-	-	932,486
-	-	-	-	-	397,772
-	-	-	898,891	-	898,891
-	-	-	-	-	11,950
-	-	485,253	-	-	485,253
\$ 1,502,908	\$ 1,077,871	\$ 2,226,038	\$ 2,960,272	\$ 782,010	\$ 20,505,256
\$ 1,612,610	\$ 1,167,385	\$ 2,312,034	\$ 3,053,846	\$ 788,925	\$ 23,773,229

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2010**

Fund balance - total governmental funds (Exhibit 3) \$ 20,505,256

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. 65,731,508

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. 2,029,691

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.

Notes payable	\$	(590,000)	
Bonds payable		(3,750,000)	
Leases payable		(102,826)	
Other postemployment benefits		(376,825)	
Compensated absences		(932,486)	
Loans payable		(461,141)	
Deferred debt issuance charges		36,994	
Unamortized discount on notes		28,257	
Accrued interest payable		(67,886)	
		(6,215,913)	(6,215,913)

Net Assets of Governmental Activities (Exhibit 1) \$ 82,050,542

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>
Revenues			
Taxes	\$ 4,613,275	\$ 1,174,592	\$ 2,361,955
Special assessments	76,525	-	-
Licenses and permits	45,964	-	-
Intergovernmental	1,207,889	5,587,658	2,508,573
Charges for services	720,580	10,572	280,338
Gifts and contributions	15,121	30,000	-
Investment earnings	71,163	3,034	-
Miscellaneous	407,796	33,773	62,919
Total Revenues	\$ 7,158,313	\$ 6,839,629	\$ 5,213,785
Expenditures			
Current			
General government	\$ 2,841,570	\$ -	\$ -
Public safety	2,490,783	-	-
Highways and streets	-	4,911,355	-
Sanitation	-	-	-
Human services	-	-	5,103,345
Health	-	-	-
Culture and recreation	285,729	-	-
Conservation of natural resources	484,865	-	-
Economic development	69,234	-	-
Intergovernmental	104,679	401,123	-
Debt service			
Principal	96,547	-	2,434
Interest	36,110	-	1,150
Administrative charges	-	-	-
Total Expenditures	\$ 6,409,517	\$ 5,312,478	\$ 5,106,929
Excess of Revenues Over (Under) Expenditures	\$ 748,796	\$ 1,527,151	\$ 106,856
Other Financing Sources (Uses)			
Capital lease/installment purchase	\$ 13,105	\$ -	\$ 17,498
Loans issued	61,766	-	-
Total Other Financing Sources (Uses)	\$ 74,871	\$ -	\$ 17,498
Net Change in Fund Balance	\$ 823,667	\$ 1,527,151	\$ 124,354
Fund Balance - January 1	5,180,421	2,161,085	2,205,284
Increase (decrease) in reserved for inventories	-	(65,805)	-
Fund Balance - December 31	\$ 6,004,088	\$ 3,622,431	\$ 2,329,638

EXHIBIT 5

Public Health Services	Solid Waste	Building	Ditch	Debt Service	Total
\$ 539,216	\$ -	\$ 608,698	\$ -	\$ 463,833	\$ 9,761,569
-	365,783	-	169,994	-	612,302
-	1,750	-	-	-	47,714
403,585	55,955	98,645	183	48,205	9,910,693
591,440	-	1,500	-	-	1,604,430
33	-	-	-	-	45,154
14,657	10,647	9,186	68,374	5,764	182,825
4,971	319,136	105,574	3,654	-	937,823
\$ 1,553,902	\$ 753,271	\$ 823,603	\$ 242,205	\$ 517,802	\$ 23,102,510
\$ -	\$ -	\$ 252,564	\$ -	\$ -	\$ 3,094,134
-	-	-	-	-	2,490,783
-	-	-	-	-	4,911,355
-	555,073	-	-	-	555,073
-	-	-	-	-	5,103,345
1,498,279	-	-	-	-	1,498,279
-	-	-	-	-	285,729
-	-	-	232,996	-	717,861
-	-	-	-	-	69,234
-	-	-	-	-	505,802
1,135	-	-	-	300,000	400,116
468	-	-	-	167,102	204,830
-	-	-	-	850	850
\$ 1,499,882	\$ 555,073	\$ 252,564	\$ 232,996	\$ 467,952	\$ 19,837,391
\$ 54,020	\$ 198,198	\$ 571,039	\$ 9,209	\$ 49,850	\$ 3,265,119
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,603
-	-	-	-	-	61,766
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 92,369
\$ 54,020	\$ 198,198	\$ 571,039	\$ 9,209	\$ 49,850	\$ 3,357,488
1,448,888	879,673	1,654,999	2,951,063	732,160	17,213,573
-	-	-	-	-	(65,805)
\$ 1,502,908	\$ 1,077,871	\$ 2,226,038	\$ 2,960,272	\$ 782,010	\$ 20,505,256

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010**

Net change in fund balance - total governmental funds (Exhibit 5) \$ 3,357,488

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 revenue deferred as unavailable.

Deferred revenue - December 31	\$ 2,029,691	
Deferred revenue - January 1	(2,666,054)	(636,363)

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net book value of the assets sold.

Expenditures for general capital assets and infrastructure	\$ 2,804,797	
Net book value of assets disposed of	(251,701)	
Current year depreciation	(2,033,273)	519,823

Issuing long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas, those amounts are deferred and amortized over the life of the debt in the statement of activities.

Principal repayments		
General obligation bonds	\$ 170,000	
General obligation equipment certificates of indebtedness	130,000	
Loans payable	48,677	
Leases payable	67,262	415,939
New debt issued - net of discounts (see Note 2.C.5. for more information)		(112,265)

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

Change in accrued interest payable	\$ 3,480	
Change in compensated absences	40,283	
Change in other postemployment benefits	(102,286)	
Change in inventories	(65,805)	
Amortization of discounts and deferred debt issuance charges	(8,193)	(132,521)

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 3,412,101

FIDUCIARY FUNDS

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2010**

<u>Assets</u>	
Cash and pooled investments	<u>\$ 514,250</u>
 <u>Liabilities</u>	
Accounts payable	\$ 122,261
Due to other governments	<u>391,989</u>
Total Liabilities	<u>\$ 514,250</u>

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2010

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, 2010. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Redwood County was established February 6, 1862, and is an organized County having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Redwood County. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Blended Component Unit

Blended component units are legally separate organizations that are so intertwined with the County that they are, in substance, the same as the County and, therefore, are reported as if they were part of the County. Redwood County has one blended component unit reported as part of the General and Building Special Revenue Funds.

Component Unit	Component Unit Included in Reporting Entity Because	Separate Financial Statements
Redwood County Economic Development Authority (RCEDA) provides services pursuant to Minn. Stat. §§ 469.090-.1082.	The County appoints all of the RCEDA Board members and is financially responsible for funding its projects.	Separate financial statements are not prepared.

REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

The County participates in joint ventures as described in Note 5.B. The County also participates in jointly-governed organizations which are described in Note 5.C.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about Redwood County. 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 revenue, are reported in a single column.

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

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those that are 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 that are 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.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

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 and fiduciary--are presented. The emphasis of governmental fund financial statements is on major individual governmental funds, with each displayed as separate columns in the fund financial statements. The County reports all of its governmental funds as major funds.

The County reports the following major governmental funds:

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

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

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

The Public Health Services Special Revenue Fund is used to account for the community health programs. Financing comes primarily from an annual tax levy and intergovernmental revenue provided by the state and federal governments.

The Solid Waste Special Revenue Fund is used to account for the costs relating to disposal of the County's solid waste. Financing is provided by special assessments, miscellaneous revenue, grants from the state, and through an appropriation from the General Fund.

The Building Special Revenue Fund is used to account for the cost of constructing and maintaining County buildings. Financing is provided from an annual tax levy, miscellaneous revenue and investment earnings on taxes and penalties' investments.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

The Debt Service Fund is used to account for the accumulation of financial resources for, and the payment of, principal, interest, and related costs of general obligation bonds. This fund was opened in 2008.

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.

C. Measurement Focus and Basis of Accounting

The government-wide 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. Redwood County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

D. Assets, Liabilities, and Net Assets or Equity

1. 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 and fund investments are reported at their fair value at December 31, 2010, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2010 were \$7,449.

Redwood County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission (SEC), but does operate in a manner consistent with Rule 2a7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7). Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

2. Receivables and Payables

Activity between funds that represents 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."

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

All receivables are shown net of an allowance for uncollectibles.

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

3. Inventories and Prepaid Items

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.

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

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (such as roads, bridges, sidewalks, and similar items), are reported 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.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. 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 of the County are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25 - 40
Building improvements	20 - 35
Public domain infrastructure	15 - 70
Furniture, equipment, and vehicles	3 - 15
Intangible assets	3 - 7 - o/p

5. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual vacation 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 fiduciary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. Deferred Revenue

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

	<u>Unavailable</u>
Delinquent property taxes	\$ 145,155
Delinquent and noncurrent special assessments	376,274
Interest on investments	11,468
Receivables that do not provide current financial resources	<u>1,496,794</u>
Total Deferred Revenues	<u>\$ 2,029,691</u>

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

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.

8. Fund Equity

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets 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.

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 13,733,910
Investments	6,922,854
Statement of fiduciary net assets	
Cash and pooled investments	<u>514,250</u>
Total Cash and Investments	<u>\$ 21,171,014</u>

Deposits	
Checking	\$ 7,503
Money market savings	1,665,704
Certificates of deposit	4,089,246
Invested in MAGIC Fund	12,195,416
Invested in mutual funds	39,962
Invested in Federal Home Loan Bank bonds	150,000
Invested in Federal National Mortgage Association notes	1,600,000
Invested in Federal Home Loan Mortgage Corporation notes	949,900
Invested in Federal Home Loan Mortgage Corporation bonds	133,708
Invested in repurchase agreement	337,485
Petty cash and change funds	<u>2,090</u>
Total Deposits, Cash on Hand, and Investments	<u>\$ 21,171,014</u>

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

2. 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 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's policy is to minimize deposit 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, 2010, the County's deposits were not exposed to custodial credit risk.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

2. 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.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

2. 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's policy is to minimize interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the County's cash requirements.

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County's policy is to minimize investment custodial credit risk by permitting brokers that obtained investments for the County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. As of December 31, 2010, the County's investments were not exposed to custodial credit risk.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

2. 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.

The following table presents the County's cash and investment balances at December 31, 2010, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
U.S. government agency securities					
Federal Home Loan Bank Bonds	AAA	S&P	<5%	N/A	\$ 150,000
Federal National Mortgage Association Notes	AAA	S&P	<5%	N/A	\$ 500,000
Federal National Mortgage Association Notes	AAA	S&P	<5%	N/A	100,000
Federal National Mortgage Association Notes	AAA	S&P	<5%	N/A	1,000,000
Total Federal National Mortgage Association Notes					\$ 1,600,000
Federal Home Loan Mortgage Corporation Notes	AAA	S&P	<5%	N/A	\$ 150,000
Federal Home Loan Mortgage Corporation Notes	AAA	S&P	<5%	N/A	199,900
Federal Home Loan Mortgage Corporation Notes	AAA	S&P	<5%	N/A	300,000
Federal Home Loan Mortgage Corporation Notes	AAA	S&P	<5%	N/A	300,000
Total Federal Home Loan Mortgage Corporation Notes					\$ 949,900
Federal Home Loan Mortgage Corporation Bonds	AAA	S&P	<5%	N/A	\$ 133,708
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	N/A	N/A	\$ 12,195,416
Federated Prime Obligations Fund	N/R	N/A	<5%	N/A	39,962
Total investment pools/mutual funds					\$ 12,235,378
Repurchase agreement	N/A	N/A	<5%	N/A	\$ 337,485

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk Over 5 Percent of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
	Credit Rating	Rating Agency			
Total investments					\$ 15,406,471
Checking					7,503
Savings					1,665,704
Certificates of deposit					4,089,246
Petty cash					2,090
Total Cash and Investments					<u>\$ 21,171,014</u>

N/A - Not Applicable

N/R - Not Rated

<5% - Concentration is less than 5% of investments

>5% - Concentration is more than 5% of investments

2. Capital Assets

Capital asset activity for the year ended December 31, 2010, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 445,148	\$ 9,000	\$ -	\$ 454,148
Right-of-way	1,318,255	-	-	1,318,255
Construction in progress	5,007,692	2,196,199	1,223,452	5,980,439
Total capital assets not depreciated	<u>\$ 6,771,095</u>	<u>\$ 2,205,199</u>	<u>\$ 1,223,452</u>	<u>\$ 7,752,842</u>
Capital assets depreciated				
Buildings	\$ 5,698,355	\$ 142,087	\$ 38,090	\$ 5,802,352
Improvements other than building	542,842	-	-	542,842
Machinery and equipment	7,203,832	661,731	589,803	7,275,760
Infrastructure	69,950,146	1,019,232	-	70,969,378
Total capital assets depreciated	<u>\$ 83,395,175</u>	<u>\$ 1,823,050</u>	<u>\$ 627,893</u>	<u>\$ 84,590,332</u>

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

2. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Less: accumulated depreciation for				
Buildings	\$ 3,453,563	\$ 106,515	\$ 3,048	\$ 3,557,030
Improvements other than building	24,658	26,036	-	50,694
Machinery and equipment	5,087,121	494,668	373,144	5,208,645
Infrastructure	<u>16,389,243</u>	<u>1,406,054</u>	<u>-</u>	<u>17,795,297</u>
Total accumulated depreciation	<u>\$ 24,954,585</u>	<u>\$ 2,033,273</u>	<u>\$ 376,192</u>	<u>\$ 26,611,666</u>
Total capital assets depreciated, net	<u>\$ 58,440,590</u>	<u>\$ (210,223)</u>	<u>\$ 251,701</u>	<u>\$ 57,978,666</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 65,211,685</u>	<u>\$ 1,994,976</u>	<u>\$ 1,475,153</u>	<u>\$ 65,731,508</u>

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

General government	\$ 168,148
Public safety	227,152
Highways and streets, including depreciation of infrastructure assets	1,584,690
Sanitation	27,191
Human services	5,389
Health	7,797
Culture and recreation	11,356
Conservation of natural resources	<u>1,550</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 2,033,273</u>

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

The composition of interfund balances as of December 31, 2010, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Road and Bridge	\$ 273
	Public Health Services	273
	Human Services	14,247
	Ditch	8,132
	Solid Waste	<u>4,147</u>
Total due to General Fund		<u>\$ 27,072</u>
Road and Bridge	General	\$ 605
	Building	252
	Ditch	62
	Solid Waste	<u>205</u>
Total due to Road and Bridge Fund		<u>\$ 1,124</u>
Public Health Services	General	\$ 1,644
	Human Services	<u>884</u>
Total due to Public Health Services Fund		<u>\$ 2,528</u>
Total Due To/From Other Funds		<u>\$ 30,724</u>

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

2. Interfund Transfers

No interfund transfers occurred for the year ended December 31, 2010.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Construction Commitments

The government has active construction projects as of December 31, 2010. The projects include the following:

	Spent-to-Date	Remaining Commitment
Building projects	\$ 488,301	\$ 391,401

The remaining commitment for highway projects are state-funded and, therefore, not obligations of the County for December 31, 2010.

2. Long-Term Debt

Loans Payable

In 2003, the County entered into a loan agreement with the Minnesota Pollution Control Agency for financing groundwater improvement projects. The loan is secured by special assessments placed on the individual parcels requesting repair of a failing septic system. Loan payments are reported in the General Fund.

Type of Indebtedness	Final Maturity	Installment Amount	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2010
Clean water loans					
Cottonwood River	2017	\$ 21,245	2.00	\$ 423,140	\$ 204,423
Redwood River	2017	6,326	2.00	123,047	82,263
Cottonwood River Watershed	2020	4,602	2.00	110,000	83,052
Redwood River TMDL	-	-	-	31,594	31,594
Middle Minnesota	-	-	-	25,549	25,548
Cottonwood River TMDL	-	-	-	34,261	34,261
Total					\$ 461,141

The Redwood River Watershed Phosphorous TMDL, Middle Minnesota, and the Cottonwood River Watershed Phosphorus TMDL water loans do not have a fixed amortization schedule.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities

2. Long-Term Debt (Continued)

Bonds, Certificates of Indebtedness, and Notes Payable

In 2008, Redwood County issued a Capital Improvement Bond (Series 2008A) for \$3,920,000 to finance the renovation of the Government Center and remodeling of the Courthouse. In 2008, Redwood County also issued a Certificate of Indebtedness (Series 2008B) for \$720,000 to finance the acquisition of capital equipment for the County. Payments on the 2008 issues will be made from the Debt Service Fund.

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amount</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2010</u>
2008 General Obligation Improvement Bond, Series 2008A	2024	\$170,000 - \$355,000	3.00 - 4.50	<u>\$ 3,920,000</u>	\$ 3,750,000
Less: unamortized discount					<u>(24,801)</u>
Improvement Bond					<u>\$ 3,725,199</u>
2008 General Obligation Certificate of Indebtedness, Series 2008B	2014	\$130,000 - \$155,000	2.50 - 3.40	<u>\$ 720,000</u>	\$ 590,000
Less: unamortized discount					<u>(3,456)</u>
Certificate of Indebtedness					<u>\$ 586,544</u>
Total General Obligation Bonds, Certificates, and Notes, Net					<u>\$ 4,311,743</u>

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Debt Service Requirements

Debt service requirements at December 31, 2010, were as follows:

Year Ending December 31	General Obligation Bonds, Certificates of Indebtedness, and Capital Notes	
	Principal	Interest
2011	\$ 345,000	\$ 157,928
2012	355,000	147,602
2013	370,000	136,577
2014	380,000	124,642
2015	235,000	114,413
2016 - 2020	1,340,000	428,568
2021 - 2024	1,315,000	119,883
Total	<u>\$ 4,340,000</u>	<u>\$ 1,229,613</u>

Year Ending December 31	Loans Payable	
	Principal	Interest
2011	\$ 57,236	\$ 7,110
2012	58,387	5,960
2013	54,520	4,786
2014	48,451	3,750
2015	49,425	2,777
2016 - 2020	101,719	3,610
Total	<u>\$ 369,738</u>	<u>\$ 27,993</u>

The Redwood River Watershed Phosphorous TMDL, Middle Minnesota, and the Cottonwood River Watershed clean water loans are not included in the debt service requirements because a fixed repayment schedule was not available.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Capital Leases

The County has entered into lease agreements as lessee for financing the acquisition of squad cars for the Sheriff and Human Services Department and copier leases for various departments. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. These capital leases consist of the following at December 31, 2010:

Lease	Final Maturity	Installments	Payment Amount	Original Issue Amount	Outstanding Balance December 31, 2010
2009 Crown Victoria	2013	Monthly	\$ 1,025	\$ 27,000	\$ 20,271
2009 Crown Victoria	2013	Monthly	1,025	27,000	19,901
2008 Crown Victoria	2012	Monthly	859	20,945	11,934
2010 Crown Victoria	2014	Monthly	667	28,928	22,668
HS 2010 Chevy Impala	2014	Monthly	448	17,498	15,064
Admn. Sharp Copier	2014	Monthly	155	7,286	4,970
Sheriff Sharp Copier	2014	Monthly	104	5,067	3,415
PHS Sharp Copier	2014	Monthly	134	6,535	4,603
Total Capital Leases					<u>\$ 102,826</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2010, were as follows:

Year Ending December 31	Governmental Activities
2011	\$ 52,991
2012	48,698
2013	28,336
2014	3,510
Total minimum lease payments	\$ 133,535
Less: amount representing interest	<u>(30,709)</u>
Present Value of Minimum Lease Payments	<u>\$ 102,826</u>

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds and notes payable					
General obligation certificates	\$ 720,000	\$ -	\$ 130,000	\$ 590,000	\$ 140,000
General obligation bond	3,920,000	-	170,000	3,750,000	205,000
Less: deferred amounts for issuance discounts	(31,317)	-	(3,060)	(28,257)	-
Total bonds and notes payable	\$ 4,608,683	\$ -	\$ 296,940	\$ 4,311,743	\$ 345,000
Clean water loans payable	443,979	65,839	48,677	461,141	57,236
Compensated absences	972,769	-	40,283	932,486	65,367
Other postemployment benefits	274,539	186,228	83,942	376,825	72,822
Capital leases	123,662	46,426	67,262	102,826	33,997
Governmental Activities Long-Term Liabilities	<u>\$ 6,423,632</u>	<u>\$ 298,493</u>	<u>\$ 537,104</u>	<u>\$ 6,185,021</u>	<u>\$ 574,422</u>

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

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

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan, and benefits vest after three years of credited service (five years for those first eligible for membership after June 30, 2010).

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute. Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive 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 year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.00 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.40 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2010:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.00
Public Employees Police and Fire Fund	14.10
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2010, 2009, and 2008, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
General Employees Retirement Fund	\$ 414,365	\$ 403,877	\$ 374,928
Public Employees Police and Fire Fund	88,913	82,213	75,596
Public Employees Correctional Fund	36,607	38,261	35,404

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

B. Defined Contribution Plan

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employees may

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2010, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 7,165	\$ 7,165
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description

The County pays the health insurance for qualified retired employees and elected officials. Employees who retire between age 55 and 65 with 25 years of public service, and with at least 10 years of service with Redwood County, qualify for health insurance benefits. Elected officials qualify if they serve a minimum of 2 years as an elected Redwood County official. The elected official or his or her surviving spouse and dependents will receive one year of paid or partially paid medical insurance for every 2 years of service to Redwood County. Additional years, not a multiple of two, are prorated. A maximum of 6 years of paid insurance is available to elected officials. On November 30, 2010, the Board took action to change the health insurance benefits for elected officials. For those elected officials taking office on or before January 4, 2011, the following provisions apply as above, except the County will not exceed the actual cost of the County's \$500 deductible plan for the "Retiree and Spouse, both 65 years of age or over" rate. For those elected officials taking office after January 4, 2011, the following provisions apply. Elected officials who retire between age 55 and 65, with at least 10 years of service with Redwood County, qualify for health insurance benefits. The amount paid by the County will not exceed the amount that the County contributes

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB)

Plan Description (Continued)

to employees pursuant to policy 6.16, as may be amended from time to time by the County Board. For retired employees, the County rates are based on the County's group health policy rates in effect at the time of retirement and are a fixed amount until discontinued at age 65 for retired employees and after a maximum of 6 years for elected officials. As of year-end December 31, 2010, the County has 13 eligible participants--6 elected officials and 7 employees. The County finances the plan on a pay-as-you-go basis. During 2010, the County expended \$68,707 for these benefits.

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	\$ 175,246
Interest on net OPEB obligation	10,982
Adjustment to ARC	<u>(15,235)</u>
Annual OPEB cost (expense)	\$ 170,993
Contributions made	<u>(68,707)</u>
Increase in net OPEB obligation	\$ 102,286
Net OPEB Obligation - Beginning of Year	<u>274,539</u>
Net OPEB Obligation - End of Year	<u><u>\$ 376,825</u></u>

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

C. 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, 2008, 2009 and 2010 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2008	\$ 175,246	\$ 30,425	17.4%	\$ 144,821
December 31, 2009	173,002	43,284	25.0	274,539
December 31, 2010	170,993	68,707	40.2	376,825

Funded Status and Funding Progress

As of January 1, 2008, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$1,867,528, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,867,528. The covered payroll (annual payroll of active employees covered by the plan) was \$6,782,042, and the ratio of the UAAL to the covered payroll was 27.5 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 health care 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 following the notes to the financial statements, 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.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

C. 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, 2008, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.0 percent investment rate of return (net of investment expenses), which is Redwood County's implicit rate of return on the General Fund. The annual health care cost trend is 9.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over eight years. Both rates included a 3.0 percent inflation assumption. The UAAL is being amortized over 30 years on a level dollar basis. The remaining amortization period at December 31, 2010, was 27 years.

4. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health and dental coverage; or natural disasters. To manage these risks, the County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. For risks related to certain equipment and for hospitalization, medical, dental, and major medical for its employees, the County purchases commercial insurance. The County retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance for any of the past three fiscal years.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$450,000 per claim in 2010 and 2011. 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. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

Lincoln-Pipestone Rural Water System

At December 31, 2010, the Lincoln-Pipestone Rural Water System had \$36,859,000 of general obligation bonds outstanding through 2050. The bonds were issued by some of the participating counties in the Rural Water System to finance the construction of water system expansions and improvements.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

Lincoln-Pipestone Rural Water System (Continued)

The debt is paid by the Lincoln-Pipestone Rural Water System from special assessments levied against property specially benefited by the applicable expansion, extension, or enlargement of the system and from the net revenues from time to time received in excess of the current costs of operating and maintaining the system. The bonds are general obligations of the issuing counties for which their full faith, credit, and unlimited taxing powers are pledged. The participating counties (Lac qui Parle, Lincoln, Lyon, Murray, Nobles, Pipestone, Redwood, Rock, and Yellow Medicine) have adopted board resolutions and have signed joint powers agreements to define their liability for a proportional share of the debt should the issuing counties make any debt service payments. In such a situation, each of the other counties will promptly reimburse the paying counties in proportion to the percentage of Lincoln-Pipestone Rural Water System customers located in such county, in accordance with Minn. Stat. § 116A.24, subd. 3. The outstanding bonds are reported as liabilities in the annual financial statements of the Lincoln-Pipestone Rural Water System and are not reported as liabilities in the financial statements of any of the nine participating counties. The participating counties disclose a contingent liability due to the guarantee of indebtedness.

B. Joint Ventures

Lincoln-Pipestone Rural Water System

Redwood County, along with Lac qui Parle, Lincoln, Lyon, Murray, Nobles, Pipestone, Rock, and Yellow Medicine Counties, jointly established the Lincoln-Pipestone Rural Water System, pursuant to Minn. Stat. ch. 116A. The Rural Water System is responsible for storing, treating, and distributing water for domestic, commercial, and industrial use within the area it serves. The cost of providing these services is recovered through user charges.

The Lincoln-Pipestone Rural Water System is governed by the District Court. The Rural Water System's Board is solely responsible for the budgeting and financing of the Rural Water System.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Lincoln-Pipestone Rural Water System (Continued)

Bonds were issued by Lincoln, Nobles, and Yellow Medicine Counties to finance the construction of the Rural Water System. Costs assessed to municipalities and special assessments levied against benefited properties pay approximately 85 percent of the amount necessary to retire principal and interest on the bonds. The remainder of the funds necessary to retire the outstanding bonds and interest will be provided by appropriations from the Lincoln-Pipestone Rural Water System. Outstanding obligations at December 31, 2010, are \$36,859,000.

The Lincoln-Pipestone Rural Water System's 2010 financial report shows total assets of \$42,424,191, including unrestricted net assets of \$18,949,248. The increase in net assets for the year ended December 31, 2010, is \$5,340,636.

Complete financial statements of the Lincoln-Pipestone Rural Water System can be obtained at East Highway 14, P. O. Box 188, Lake Benton, Minnesota 56149-0188.

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, Lyon, Murray, Redwood, and Watonwan Counties have agreed to guarantee their share of debt arising within each respective county. The Red Rock Rural Water System provides water for participating rural water users and cities within the water district. The Red Rock Rural Water System is governed by a nine-member Board appointed for terms of three years by the District Court.

Each county is responsible for levying and collecting the special assessments from the benefited properties within that county. A bond issue and notes payable are shown as long-term debt on the financial statements of the Red Rock Rural Water System. Outstanding bonds at December 31, 2009 (the most recent information available), were \$11,845,000. The Water System's net assets decreased by \$201,893 in 2009.

Complete financial information can be obtained at 305 West Whited Street, Jeffers, Minnesota 56145.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Southwest Minnesota Regional Radio Board

The Southwest Minnesota Regional Radio Joint Powers Board was established April 22, 2008, between Lyon County, the City of Marshall, the City of Worthington, and 12 other counties (including Redwood County) 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.

Minnesota River Basin

The Minnesota River Basin Joint Powers Board was established July 12, 1995, by an agreement between Chippewa, Lac qui Parle, Lincoln, Lyon, Murray, Pipestone, Redwood, Yellow Medicine, and 27 other counties. The agreement was made to promote orderly water quality improvement and management of the Minnesota River Watershed. Each county is responsible for its proportionate share of the administrative budget and for its share of benefits from any special project.

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

Control is vested in an executive board of five officers elected from the membership of the Joint Powers Board, consisting of one representative and alternate from each County Board of Commissioners included in this agreement.

During 2010, Redwood County made no contributions to the Joint Powers Board.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Minnesota River Basin (Continued)

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

Southwestern Minnesota Adult Mental Health Consortium Board

In November 1997, the County entered into a joint powers agreement with several counties and the Lincoln, Lyon, & Murray Human Services Board, creating and operating the Southwestern Minnesota Adult Mental Health Consortium Board under the authority of Minn. Stat. § 471.59. The Board is headquartered in Windom, Minnesota, where Cottonwood County acts as fiscal host.

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

The following is a summary of the Consortium Board's annual financial report for the year ended December 31, 2009 (the most recent information available):

Total assets	\$ 2,304,308
Total liabilities	327,637
Total net assets	1,976,671
Total revenues	4,271,686
Total expenditures	4,327,451
Net change in net assets	(55,765)

The Board reported no long-term obligations at December 31, 2009.

A complete financial report of the Southwestern Minnesota Adult Mental Health Consortium Board can be obtained at Cottonwood County Family Services Agency, Windom, Minnesota 56101.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

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

C. Jointly-Governed Organizations

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

Family Service Collaborative

The Family Service Collaborative was established to create opportunities to enhance family strengths and support through service coordination and access to informal communication. Redwood County, in an agent capacity, reports the cash transactions of the Collaborative as an agency fund in its financial statements. Redwood County has no operational or financial control over the Collaborative.

Area II Minnesota River Basin Project

The Area II Minnesota River Basin Project provides programs for flood reduction measures to the area between the Cities of Ortonville and Mankato. During the year, the County contributed \$11,187 to the Project.

Redwood-Cottonwood Rivers Control Area

The Redwood-Cottonwood Rivers Control Area (RCRCA) promotes orderly water quality improvement and management within the boundaries of the watersheds of the Redwood and Cottonwood Rivers for the participating counties. The County contributed \$19,860 to the RCRCA in 2010.

REQUIRED SUPPLEMENTARY INFORMATION

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 4,611,509	\$ 4,611,509	\$ 4,613,275	\$ 1,766
Special assessments	66,202	66,202	76,525	10,323
Licenses and permits	25,050	25,050	45,964	20,914
Intergovernmental	1,233,664	992,251	1,207,889	215,638
Charges for services	593,100	593,100	720,580	127,480
Gifts and contributions	5,000	5,000	15,121	10,121
Investment earnings	35,000	35,000	71,163	36,163
Miscellaneous	267,055	267,055	407,796	140,741
Total Revenues	\$ 6,836,580	\$ 6,595,167	\$ 7,158,313	\$ 563,146
Expenditures				
Current				
General government				
Commissioners	\$ 238,131	\$ 238,131	\$ 234,535	\$ 3,596
Law library	-	-	27,367	(27,367)
County administration	293,330	293,330	279,586	13,744
Administrator	241,779	241,984	232,439	9,545
Auditor-Treasurer	328,305	329,836	305,021	24,815
License center	140,125	141,647	138,462	3,185
Assessor	303,615	307,589	281,234	26,355
Elections	47,100	47,100	53,848	(6,748)
Computer	293,491	243,554	187,577	55,977
Attorney	335,993	323,757	317,085	6,672
Recorder	275,239	265,755	250,455	15,300
Buildings and plant	338,008	352,335	292,710	59,625
Veterans service officer	163,504	166,422	234,797	(68,375)
Other general government	12,300	12,300	6,454	5,846
Total general government	\$ 3,010,920	\$ 2,963,740	\$ 2,841,570	\$ 122,170
Public safety				
Sheriff	\$ 2,377,292	\$ 2,231,912	\$ 1,944,057	\$ 287,855
Coroner	11,000	11,000	14,797	(3,797)
E-911 system	107,672	107,672	77,378	30,294
Probation and parole	300,285	311,223	300,165	11,058
Restorative justice	-	65,996	58,204	7,792
Emergency management	70,782	72,052	72,537	(485)
Other public safety	22,100	22,100	23,645	(1,545)
Total public safety	\$ 2,889,131	\$ 2,821,955	\$ 2,490,783	\$ 331,172

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Culture and recreation				
Museum	\$ 2,700	\$ 2,700	\$ 2,266	\$ 434
Parks	113,123	114,271	101,927	12,344
Minnesota trails	93,286	93,286	133,286	(40,000)
Other	48,500	48,500	48,250	250
Total culture and recreation	\$ 257,609	\$ 258,757	\$ 285,729	\$ (26,972)
Conservation of natural resources				
Extension	\$ 97,017	\$ 97,494	\$ 85,016	\$ 12,478
Agricultural inspection	122,739	151,233	159,869	(8,636)
Water quality loan program	30,000	30,000	61,766	(31,766)
Other	181,226	181,226	178,214	3,012
Total conservation of natural resources	\$ 430,982	\$ 459,953	\$ 484,865	\$ (24,912)
Economic development				
Other	\$ 87,141	\$ 87,141	\$ 69,234	\$ 17,907
Intergovernmental				
Library	\$ 104,679	\$ 104,679	\$ 104,679	\$ -
Debt service				
Principal	\$ 48,677	\$ 48,677	\$ 96,547	\$ (47,870)
Interest	\$ 6,465	\$ 6,465	\$ 36,110	\$ (29,645)
Total Expenditures	\$ 6,835,604	\$ 6,751,367	\$ 6,409,517	\$ 341,850
Excess of Revenues Over (Under)				
Expenditures	\$ 976	\$ (156,200)	\$ 748,796	\$ 904,996
Other Financing Sources (Uses)				
Capital lease/installment purchase	\$ -	\$ -	\$ 13,105	\$ 13,105
Loans issued	30,000	30,000	61,766	31,766
Total Other Financing Sources (Uses)	\$ 30,000	\$ 30,000	\$ 74,871	\$ 44,871
Net Change in Fund Balance	\$ 30,976	\$ (126,200)	\$ 823,667	\$ 949,867
Fund Balance - January 1	5,180,421	5,180,421	5,180,421	-
Fund Balance - December 31	\$ 5,211,397	\$ 5,054,221	\$ 6,004,088	\$ 949,867

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,167,614	\$ 1,167,614	\$ 1,174,592	\$ 6,978
Intergovernmental	4,939,061	4,878,396	5,587,658	709,262
Charges for services	50,000	50,000	10,572	(39,428)
Gifts and contributions	-	-	30,000	30,000
Investment earnings	10,000	10,000	3,034	(6,966)
Miscellaneous	60,000	88,160	33,773	(54,387)
Total Revenues	\$ 6,226,675	\$ 6,194,170	\$ 6,839,629	\$ 645,459
Expenditures				
Current				
Highways and streets				
Administration	\$ 367,059	\$ 314,649	\$ 477,454	\$ (162,805)
Maintenance	2,650,136	2,563,774	1,237,468	1,326,306
Construction	3,639,352	3,575,542	2,601,968	973,574
Equipment and maintenance shops	870,128	870,128	594,465	275,663
Total highways and streets	\$ 7,526,675	\$ 7,324,093	\$ 4,911,355	\$ 2,412,738
Intergovernmental				
Highways and streets	-	-	401,123	(401,123)
Total Expenditures	\$ 7,526,675	\$ 7,324,093	\$ 5,312,478	\$ 2,011,615
Net Change in Fund Balance	\$ (1,300,000)	\$ (1,129,923)	\$ 1,527,151	\$ 2,657,074
Fund Balance - January 1	2,161,085	2,161,085	2,161,085	-
Increase (decrease) in reserved for inventories	-	-	(65,805)	(65,805)
Fund Balance - December 31	\$ 861,085	\$ 1,031,162	\$ 3,622,431	\$ 2,591,269

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,350,273	\$ 2,350,273	\$ 2,361,955	\$ 11,682
Intergovernmental	2,638,933	2,516,815	2,508,573	(8,242)
Charges for services	200,420	200,420	280,338	79,918
Miscellaneous	95,250	95,250	62,919	(32,331)
Total Revenues	\$ 5,284,876	\$ 5,162,758	\$ 5,213,785	\$ 51,027
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,530,550	\$ 1,530,550	\$ 1,495,555	\$ 34,995
Social services	3,754,326	3,687,223	3,607,790	79,433
Total human services	\$ 5,284,876	\$ 5,217,773	\$ 5,103,345	\$ 114,428
Debt service				
Principal	-	-	2,434	(2,434)
Interest	-	-	1,150	(1,150)
Total Expenditures	\$ 5,284,876	\$ 5,217,773	\$ 5,106,929	\$ 110,844
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ (55,015)	\$ 106,856	\$ 161,871
Other Financing Sources (Uses)				
Capital lease/installment purchase	-	-	17,498	17,498
Net Change in Fund Balance	\$ -	\$ (55,015)	\$ 124,354	\$ 179,369
Fund Balance - January 1	2,205,284	2,205,284	2,205,284	-
Fund Balance - December 31	\$ 2,205,284	\$ 2,150,269	\$ 2,329,638	\$ 179,369

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
PUBLIC HEALTH SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 536,351	\$ 536,351	\$ 539,216	\$ 2,865
Intergovernmental	400,426	372,560	403,585	31,025
Charges for services	565,830	565,830	591,440	25,610
Gifts and contributions	200	200	33	(167)
Investment earnings	12,000	12,000	14,657	2,657
Miscellaneous	3,700	3,700	4,971	1,271
Total Revenues	\$ 1,518,507	\$ 1,490,641	\$ 1,553,902	\$ 63,261
Expenditures				
Current				
Health				
Nursing service	\$ 1,524,134	\$ 1,530,680	\$ 1,498,279	\$ 32,401
Debt service				
Principal	-	-	1,135	(1,135)
Interest	-	-	468	(468)
Total Expenditures	\$ 1,524,134	\$ 1,530,680	\$ 1,499,882	\$ 30,798
Net Change in Fund Balance	\$ (5,627)	\$ (40,039)	\$ 54,020	\$ 94,059
Fund Balance - January 1	1,448,888	1,448,888	1,448,888	-
Fund Balance - December 31	\$ 1,443,261	\$ 1,408,849	\$ 1,502,908	\$ 94,059

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-5

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 368,000	\$ 368,000	\$ 365,783	\$ (2,217)
Licenses and permits	1,000	1,000	1,750	750
Intergovernmental	55,000	55,000	55,955	955
Investment earnings	5,000	5,000	10,647	5,647
Miscellaneous	166,516	166,516	319,136	152,620
Total Revenues	\$ 595,516	\$ 595,516	\$ 753,271	\$ 157,755
Expenditures				
Current				
Sanitation				
Solid waste	\$ 373,510	\$ 339,423	\$ 288,698	\$ 50,725
Recycling	272,500	272,500	259,816	12,684
Hazardous waste	10,000	10,000	6,559	3,441
Total Expenditures	\$ 656,010	\$ 621,923	\$ 555,073	\$ 66,850
Net Change in Fund Balance	\$ (60,494)	\$ (26,407)	\$ 198,198	\$ 224,605
Fund Balance - January 1	879,673	879,673	879,673	-
Fund Balance - December 31	\$ 819,179	\$ 853,266	\$ 1,077,871	\$ 224,605

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-6

**BUDGETARY COMPARISON SCHEDULE
BUILDING SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 608,487	\$ 608,487	\$ 608,698	\$ 211
Intergovernmental	95,267	63,650	98,645	34,995
Charges for services	-	-	1,500	1,500
Investment earnings	1,000	1,000	9,186	8,186
Miscellaneous	63,500	63,500	105,574	42,074
Total Revenues	\$ 768,254	\$ 736,637	\$ 823,603	\$ 86,966
Expenditures				
Current				
General government				
Buildings and plant	465,000	465,000	252,564	212,436
Net Change in Fund Balance	\$ 303,254	\$ 271,637	\$ 571,039	\$ 299,402
Fund Balance - January 1	1,654,999	1,654,999	1,654,999	-
Fund Balance - December 31	\$ 1,958,253	\$ 1,926,636	\$ 2,226,038	\$ 299,402

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-7

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 185,880	\$ 185,880	\$ 169,994	\$ (15,886)
Intergovernmental	183	183	183	-
Investment earnings	29,000	29,000	68,374	39,374
Miscellaneous	-	-	3,654	3,654
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenues	\$ 215,063	\$ 215,063	\$ 242,205	\$ 27,142
Expenditures				
Current				
Conservation of natural resources				
Other	350,890	344,827	232,996	111,831
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net Change in Fund Balance	\$ (135,827)	\$ (129,764)	\$ 9,209	\$ 138,973
Fund Balance - January 1	<u>2,951,063</u>	<u>2,951,063</u>	<u>2,951,063</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 2,815,236</u></u>	<u><u>\$ 2,821,299</u></u>	<u><u>\$ 2,960,272</u></u>	<u><u>\$ 138,973</u></u>

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-8

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2010

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2008	\$ -	\$ 1,867,528	\$ 1,867,528	0.0%	\$ 6,782,042	27.5%

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2010

1. General Budget Policies

The County Board adopts estimated revenue and expenditure budgets for the General Fund, special revenue funds, and the Debt Service Fund. The expenditure budget is approved at the fund level.

The budgets may be amended or modified at any time by the County Board. Expenditures may not legally exceed budgeted appropriations. Comparisons of final budgeted revenues and expenditures to actual are presented in the required supplementary information for the General Fund and special revenue funds.

2. Budget Basis of Accounting

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

3. Budget Amendments

Expenditure budgets were amended in the following funds:

	Original Budget	Increase (Decrease)	Final Budget
General Fund	\$ 6,835,604	\$ (84,237)	\$ 6,751,367
Special Revenue Funds			
Road and Bridge	7,526,675	(202,582)	7,324,093
Human Services	5,284,876	(67,103)	5,217,773
Public Health Services	1,524,134	6,546	1,530,680
Solid Waste	656,010	(34,087)	621,923
Ditch	350,890	(6,063)	344,827

4. Excess of Expenditures Over Budget

There were no funds with excess of expenditures over budget.

REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA

5. Other Postemployment Benefits

Redwood County implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in 2008. Future reports will provide additional trend analysis to meet the three-actuarial-valuation data requirement as the information becomes available. See Note 3.C. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

SUPPLEMENTARY INFORMATION

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT B-1

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 461,178	\$ 461,178	\$ 463,833	\$ 2,655
Intergovernmental	72,146	48,190	48,205	15
Investment earnings	-	-	5,764	5,764
Total Revenues	\$ 533,324	\$ 509,368	\$ 517,802	\$ 8,434
Expenditures				
Debt service				
Principal	\$ 300,000	\$ 300,000	\$ 300,000	\$ -
Interest	167,103	167,103	167,102	1
Administrative (fiscal) charges	-	-	850	(850)
Total Expenditures	\$ 467,103	\$ 467,103	\$ 467,952	\$ (849)
Net Change in Fund Balance	\$ 66,221	\$ 42,265	\$ 49,850	\$ 7,585
Fund Balance - January 1	732,160	732,160	732,160	-
Fund Balance - December 31	\$ 798,381	\$ 774,425	\$ 782,010	\$ 7,585

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Balance January 1	Additions	Deductions	Balance December 31
<u>FAMILY SERVICES COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 191,836	\$ 174,721	\$ 249,353	\$ 117,204
<u>Liabilities</u>				
Accounts payable	\$ 191,836	\$ 174,721	\$ 249,353	\$ 117,204
 <u>SOCIAL SERVICES SPECIAL PROJECTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 9,694	\$ 4,365	\$ 9,002	\$ 5,057
<u>Liabilities</u>				
Accounts payable	\$ 9,694	\$ 4,365	\$ 9,002	\$ 5,057
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 946,996	\$ 946,996	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 946,996	\$ 946,996	\$ -

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 312,911	\$ 20,548,745	\$ 20,469,667	\$ 391,989
<u>Liabilities</u>				
Due to other governments	\$ 312,911	\$ 20,548,745	\$ 20,469,667	\$ 391,989
 <u>FORFEITED TAX SALE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 70	\$ 50,448	\$ 50,518	\$ -
<u>Liabilities</u>				
Due to other governments	\$ 70	\$ 50,448	\$ 50,518	\$ -
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 514,511	\$ 21,725,275	\$ 21,725,536	\$ 514,250
<u>Liabilities</u>				
Accounts payable	\$ 201,530	\$ 179,086	\$ 258,355	\$ 122,261
Due to other governments	312,981	21,546,189	21,467,181	391,989
Total Liabilities	\$ 514,511	\$ 21,725,275	\$ 21,725,536	\$ 514,250

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Shared Revenue

State

Highway users tax	\$	5,175,746
County program aid		431,160
PERA rate reimbursement		27,660
Disparity reduction aid		44,858
Police aid		74,456
Enhanced 911		91,672
Market value credit		546,071
Casino credit		45,831
		45,831

Total shared revenue **\$ 6,437,454**

Reimbursement for Services

Minnesota Department of Human Services	\$	309,312
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Payments

Local

Payments in lieu of taxes	\$	58,939
Local contributions		22,590
		22,590

Total payments **\$ 81,529**

Grants

State

Minnesota Department/Board of Corrections	\$	62,983
Health		100,903
Human Services		675,855
Natural Resources		93,286
Public Safety		8,606
Veterans Affairs		44,800
Water and Soil Resources		44,560
Pollution Control Agency		55,950
Peace Officer Standards and Training Board		4,302
		4,302

Total state **\$ 1,091,245**

Federal

Department of Agriculture	\$	190,777
Commerce		13,082
Transportation		309,984
Energy		34,974
Health and Human Services		1,374,891
Homeland Security		67,445
		67,445

Total federal **\$ 1,991,153**

Total state and federal grants **\$ 3,082,398**

Total Intergovernmental Revenue **\$ 9,910,693**

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 97,349
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) Cluster		
State Administrative Matching Grants for SNAP	10.561	90,872
State Administrative Matching Grants for SNAP - ARRA	10.561	<u>2,556</u>
Total U.S. Department of Agriculture		\$ <u>190,777</u>
U.S. Department of Commerce		
Passed Through Minnesota Department of Public Safety Public Safety Interoperable Communications Grant Program	11.555	\$ <u>13,082</u>
U.S. Department of Transportation		
Highway Planning and Construction Cluster Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 263,422
Passed Through Minnesota Department of Natural Resources Recreational Trails Program	20.219	40,000
Passed Through Minnesota Department of Public Safety Safety Belt Performance Grants	20.609	<u>6,562</u>
Total U.S. Department of Transportation		\$ <u>309,984</u>
U.S. Department of Energy		
Passed Through Minnesota Department of Commerce Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA	81.128	\$ <u>34,974</u>

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	\$ 8,998
Temporary Assistance for Needy Families (TANF)	93.558	99,147
Child Support Enforcement Cluster		
Child Support Enforcement	93.563	528,079
Child Support Enforcement - ARRA	93.563	31,000
Refugee and Entrant Assistance - State-Administered Programs	93.566	99
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	9,101
Foster Care Title IV-E	93.658	79,781
Social Services Block Grant	93.667	146,350
Chafee Foster Care Independence Program	93.674	7,942
Children's Health Insurance Program	93.767	139
Medical Assistance Program	93.778	326,302
Passed Through Minnesota Department of Health		
Public Health Emergency Preparedness	93.069	45,875
Immunization Grants	93.268	100
Immunization - ARRA	93.712	6,883
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	14,945
Temporary Assistance for Needy Families (TANF)	93.558	37,732
Maternal and Child Health Services Block Grant to the States	93.994	18,225
Total U.S. Department of Health and Human Services		\$ 1,360,698
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	\$ 21,193
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance	97.036	18,863
Emergency Management Performance Grants	97.042	20,210
Passed Through Murray County		
Homeland Security Grant Program	97.067	7,977
Total U.S. Department of Homeland Security		\$ 68,243
Total Federal Awards		\$ 1,977,758

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Redwood 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 Redwood County under programs of the federal government for the year ended December 31, 2010. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Redwood County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Redwood 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 the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 1,991,153
Grants received more than 60 days after year-end, deferred in 2009	
Emergency Management Performance Grants	(2,704)
Foster Care - Title IV-E - ARRA	(315)
Child Support Enforcement	(14,700)
Medical Assistance Program	(6,003)
Public Health Emergency Preparedness	(2,073)
Grants received more than 60 days after year-end, deferred in 2010	
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	742
Medical Assistance Program	1,273
Immunization - ARRA	6,883
Disaster Grants - Public Assistance	3,502
	\$ 1,977,758
Expenditures per Schedule of Expenditures of Federal Awards	\$ 1,977,758

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

5. Subrecipients

During 2010, the County did not pass any federal money to subrecipients.

6. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Redwood County.
- B. A significant deficiency in internal control was disclosed by the audit of financial statements of Redwood County and is reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." It was not a material weakness.
- C. No instances of noncompliance material to the financial statements of Redwood County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Redwood County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Highway Planning and Construction Cluster	
Highway Planning and Construction	CFDA #20.205
Recreational Trails Program	CFDA #20.219
Child Support Enforcement Title IV - D Cluster	
Child Support Enforcement Title IV - D	CFDA #93.563
Child Support Enforcement Title IV - D - ARRA	CFDA #93.563
Medical Assistance	CFDA #93.778

- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Redwood County was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

99-1 Internal Accounting Controls

Due to the limited number of personnel within some County offices and departments, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Redwood County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view, as the situation increases the risk that errors or irregularities may occur and not be detected in a timely manner.

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

We recommend that County management try to segregate duties within the accounting functions as much as possible. When it is not feasible to segregate certain duties, County management should continue to be aware of the lack of segregation of the accounting functions and, if possible, implement oversight procedures to ensure the integrity and reliability of the financial information in the accounting system and to ensure that the internal control policies and procedures are being followed by staff.

Client's Response:

Redwood County's management is aware that staff size does not provide for adequate segregation of accounting duties and responsibilities. Management remains cognizant of the situation and strives to ensure that staff duties and responsibilities provide as much segregation as possible.

PREVIOUSLY REPORTED ITEM RESOLVED

Audit Adjustments (09-1)

During our audit, we proposed adjustments to various net asset classifications on the government-wide financial statements. We also proposed an adjustment to reclassify revenues and expenditures for the Human Services Special Revenue Fund on the modified accrual financial statements.

Resolution

The County has continued to implement procedures over financial reporting to detect misstatements in the financial statements. No material audit adjustments were proposed for the 2010 audit.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEMS ARISING THIS YEAR

10-1 Alternative Dissemination of Bids

During contract compliance testing, we noted Redwood County solicited bids for a highway project via the County website, but did not provide notice of such in the official newspaper during that period. When the contract was approved by the County Board on August 3, 2010, the award amount was \$1,660,466.

Pursuant to Minn. Stat. § 331A.03, subd. 3 (b), “A political subdivision may use its Web site or recognized industry trade journals as an alternative means of dissemination. A dissemination by alternative means must be in substantially the same format and for the same period of time as a publication required by this chapter.” Further, Minn. Stat. § 331A.03, subd. 3 (a), allows a political subdivision to “. . . disseminate solicitations of bids, requests for information, and requests for proposals by a means authorized in paragraph (b), if the political subdivision simultaneously publishes, either as part of the minutes of a regular meeting of the governing body or in a separate notice published in the official newspaper, a description of all solicitations or requests so disseminated, along with the means by which the dissemination occurred.”

We recommend the County comply with Minn. Stat. § 331A.03 by simultaneously publishing a description of all solicitations or requests indicating information may be found on the County's website.

Client's Response:

Redwood County will simultaneously publish a description of all solicitations or requests for bids indicating information may be found on the County's website.

PREVIOUSLY REPORTED ITEM RESOLVED

Safekeeping of Investments (09-2)

At December 31, 2009, Wells Fargo Advisors and Multi-Bank Securities, Inc., held security investments on behalf of Redwood County. Minnesota law in effect at that time permitted only brokers with a "principal executive office" in the State of Minnesota to hold public securities. The 2010 Legislature changed this requirement so that as of August 1, 2010, brokers can hold public investments to the extent they have insurance to protect their clients through the Securities Investors Protection Corporation (SIPC) or excess SIPC coverage.

Resolution

At December 31, 2010, Wells Fargo Advisors and Multi-Bank Securities, Inc., had SIPC coverage and excess SIPC coverage sufficient to protect all County securities in their possession and, therefore, were in compliance with Minn. Stat. § 118A.06.

B. OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board's (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is effective for Redwood County for the year ending December 31, 2011. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and to clarify existing governmental fund type definitions.

Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance are reserved, unreserved-designated, and unreserved-undesignated. Statement 54 replaces these components with nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not in spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).
- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.
- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - spendable amounts not contained in the other classifications.

The County should begin the process for implementing the new fund balance classifications. A key step in successfully implementing the new fund balance requirements is to plan ahead. The County can start with the following steps:

- review the requirements of GASB Statement 54;
- review current fund balance and compare to the new classifications;
- reclassify January 1, 2011, fund balance using the new classifications;
- review/update/prepare a comprehensive fund balance policy;
- prepare appropriate Board resolutions to commit fund balance; and
- if the County Board intends to delegate authority to assign fund balance, prepare the resolutions delegating that authority.

Governmental Fund Type Definitions

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in the new standard. The new definition for a special revenue fund could have significant impact on the County's current fund classifications.

GASB Statement 54 provides a new and clearer description of when it is appropriate to account for an activity using a special revenue fund. Special revenue funds are used to report specific revenue sources restricted or committed to specified purposes other than debt service and capital projects, where the restricted or committed revenue sources comprise a substantial portion of the fund's resources, and are expected to continue to do so in the future. The standard does not define substantial portion, however most recommendations are generally that the restricted or committed revenues should comprise at least 35 to 50 percent of total fund revenues. Under this definition, it is possible that some current special revenue funds will no longer meet the requirements for special revenue fund treatment. The County's management should review the County's special revenue funds to ensure these funds continue to warrant treatment as special revenue funds.

The County's management should perform the following steps prior to December 31, 2011:

- prepare a list of the County's special revenue funds;
- determine the sources of revenues for each of those funds;
- identify whether any of those revenues are restricted or committed;
- determine if these restricted or committed revenues represent a substantial portion of the fund's revenues and are expected to continue to be a substantial source of revenues;
 - if yes, the fund may continue to be classified as a special revenue fund;
 - if not, determine whether the County will combine that fund with the general fund or with a similar purpose special revenue fund that meets the new definition;

- code revenues in the general ledger by source constraints--restricted, committed, assigned, or unassigned; and
- determine if there needs to be a restatement of beginning fund balances.

Additional implementation steps could include deciding on how fund balance will be presented in the financials, such as detailed vs. aggregate methods; and developing the potential note disclosures. Additional guidance on GASB Statement 54 can be found on the Office of the State Auditor's website at: http://www.auditor.state.mn.us/other/Statements/fundbalances_postGASB54_1012_statement.pdf.

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

Board of County Commissioners
Redwood County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Redwood County as of and for the year ended December 31, 2010, which collectively comprise the County's basic financial statements, and have issued our report thereon dated July 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Redwood County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified a deficiency in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as item 99-1, that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in tax increment financing because the County does not have any tax increment financing districts of its own.

The results of our tests indicate that, for the items tested, Redwood County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 10-1.

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

Redwood County's written responses to the internal control and legal compliance findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 15, 2011

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REBECCA OTTO
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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners
Redwood County

Compliance

We have audited Redwood County's compliance of with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. Redwood County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Redwood County complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

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

Our consideration of the 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 15, 2011