

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA

YEAR ENDED DECEMBER 31, 2011

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, 2011



**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
2011

Office	Name	Term Expires
Commissioners		
1st District	Lon Walling, Chair	January 2013
2nd District	John Schueller	January 2015
3rd District	Al Kokesch	January 2015
4th District	Priscilla Klabunde, Vice Chair	January 2015
5th District	Sharon Hollatz	January 2013
County Officers		
Elected		
Attorney	Steven Collins	January 2015
Auditor-Treasurer	Jean Price	January 2015
District Court Judge	David W. Peterson	January 2015
Recorder	Joyce Anderson	January 2015
Sheriff	Randy Hanson	January 2015
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

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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, 2011, 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, 2011, 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.

As discussed in Note 1.D.9. to the financial statements, during the year ended December 31, 2011, the County adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 17, 2012, 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.


REBECCA OTTO
STATE AUDITOR


GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 17, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011
(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, 2011. 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 \$85,417,697, of which \$63,667,667 is invested in capital assets, net of related debt, and \$4,193,618 is restricted to specific purposes. The \$17,556,412 remaining may be used to meet the County's ongoing obligations to citizens and creditors.

The County's net assets increased by \$3,367,155 for the year ended December 31, 2011. 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 \$7,950,819. The net cost was funded by general revenues totaling \$11,317,974.

Fund balances of the governmental funds increased by \$1,682,099. Most of the increase was due to an increase in revenues or a decrease in expenditures in each of the funds compared to the budgeted amounts.

For the year ended December 31, 2011, the assigned and unassigned fund balance of the General Fund was \$5,818,655, or 82.3 percent of the total General Fund expenditures for the year, an increase of 5.8 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 balance 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, Ditch Special Revenue Fund, and Debt Service Fund. A budgetary comparison statement has been provided as either 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 \$85,417,697 at the close of 2011. The largest portion of the net assets (74.5 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 2010 is presented.

Governmental Activities		
Net Assets		
(in thousands)		
	2011	2010
Assets		
Current and other assets	\$ 25,222	\$ 23,779
Capital assets	67,200	65,732
Total Assets	\$ 92,422	\$ 89,511
Liabilities		
Long-term liabilities	\$ 5,170	\$ 5,610
Other liabilities	1,834	1,850
Total Liabilities	\$ 7,004	\$ 7,460
Net Assets		
Invested in capital assets, net of related debt	\$ 63,668	\$ 62,197
Restricted	4,194	4,783
Unrestricted	17,556	15,071
Total Net Assets	\$ 85,418	\$ 82,051

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 20.6 percent of the net assets.

Governmental Activities

The County's activities increased net assets by 4.1 percent (\$82,050,542 for 2010 compared to \$85,417,697 for 2011). Key elements in this increase in net assets are as follows for 2011, with comparative data for 2010.

Governmental Activities		
Changes in Net Assets		
(in thousands)		
	<u>2011</u>	<u>2010</u>
Revenues		
Program revenues		
Charges for services	\$ 3,046	\$ 2,948
Operating grants and contributions	8,214	7,954
Capital grants and contributions	36	263
General revenues		
Property taxes	9,741	9,742
Other	1,577	1,565
Total Revenues	<u>\$ 22,614</u>	<u>\$ 22,472</u>
Expenses		
General government	\$ 2,917	\$ 2,985
Public safety	2,766	2,585
Highways and streets	5,150	4,910
Sanitation	536	570
Human services	4,870	5,091
Health	1,359	1,503
Culture and recreation	338	402
Conservation of natural resources	1,061	734
Economic development	54	69
Interest	196	210
Total Expenses	<u>\$ 19,247</u>	<u>\$ 19,059</u>
Increase in Net Assets	<u>\$ 3,367</u>	<u>\$ 3,413</u>
Net Assets - January 1	<u>82,051</u>	<u>78,638</u>
Net Assets - December 31	<u><u>\$ 85,418</u></u>	<u><u>\$ 82,051</u></u>

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, unassigned 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 \$22,187,355, an increase of \$1,682,099 in comparison with the prior year. Of the combined ending fund balances, \$14,370,946 represents assigned and unassigned fund balance which is available for spending at the County's discretion. The remainder of the fund balance is nonspendable, restricted, or committed 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 assigned and unassigned fund balance of \$5,818,655. As a measure of the General Fund's liquidity, it may be useful to compare assigned and unassigned fund balance to total expenditures. The General Fund's assigned and unassigned fund balance represents 82.3 percent of total General Fund expenditures. During 2011, the ending fund balance increased by \$1,025,864, primarily due to receiving \$425,824 more in revenues than was expected.

The Road and Bridge Special Revenue Fund had an assigned fund balance of \$2,276,630 at fiscal year-end, representing 35.8 percent of its annual expenditures. The ending fund balance increased \$333,842 during 2011, primarily due to receiving state revenue for 2011 projects that were not completed during the year.

The Human Services Special Revenue Fund had an assigned fund balance of \$2,480,051 at fiscal year-end, representing 50.6 percent of its annual expenditures. The ending fund balance increased \$152,237 during 2011, primarily due to spending less than was budgeted.

The Public Health Service Special Revenue Fund had an assigned fund balance of \$1,669,278 at fiscal year-end, representing 123 percent of its annual expenditures. The ending balance increased \$167,844 during 2011, primarily due to spending less than was budgeted.

The Solid Waste Special Revenue Fund had an assigned fund balance of \$1,231,282 at fiscal year-end, representing 226 percent of its annual expenditures. The ending fund balance increased \$198,440 during 2011, primarily due to receiving more miscellaneous revenue than expected and spending less than was budgeted.

The Ditch Special Revenue Fund had restricted fund balance of \$1,843,980 at fiscal year-end. The ending fund balance decreased \$221,242 during 2011, primarily due to spending more than the assessments collected.

The Debt Service Fund had restricted fund balance of \$807,124 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 \$22,614,095. Table 3 presents the percent of total County revenues by source for the year ended December 31, 2011.

Table 3
Total County Revenues

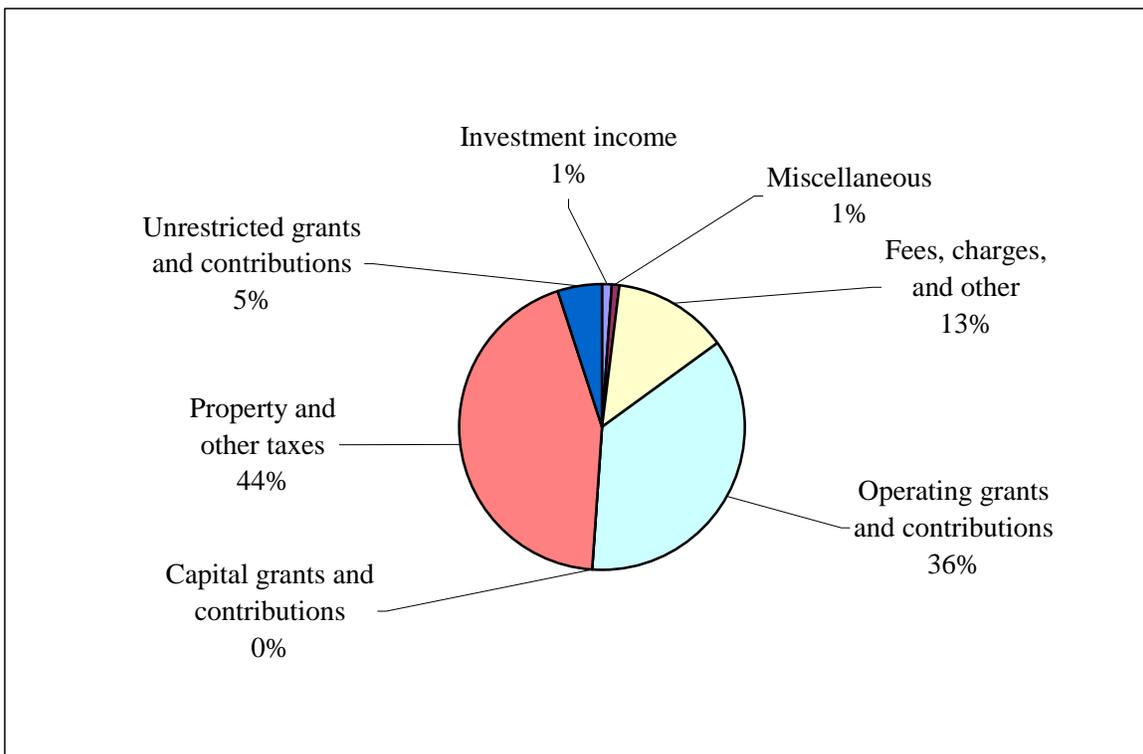
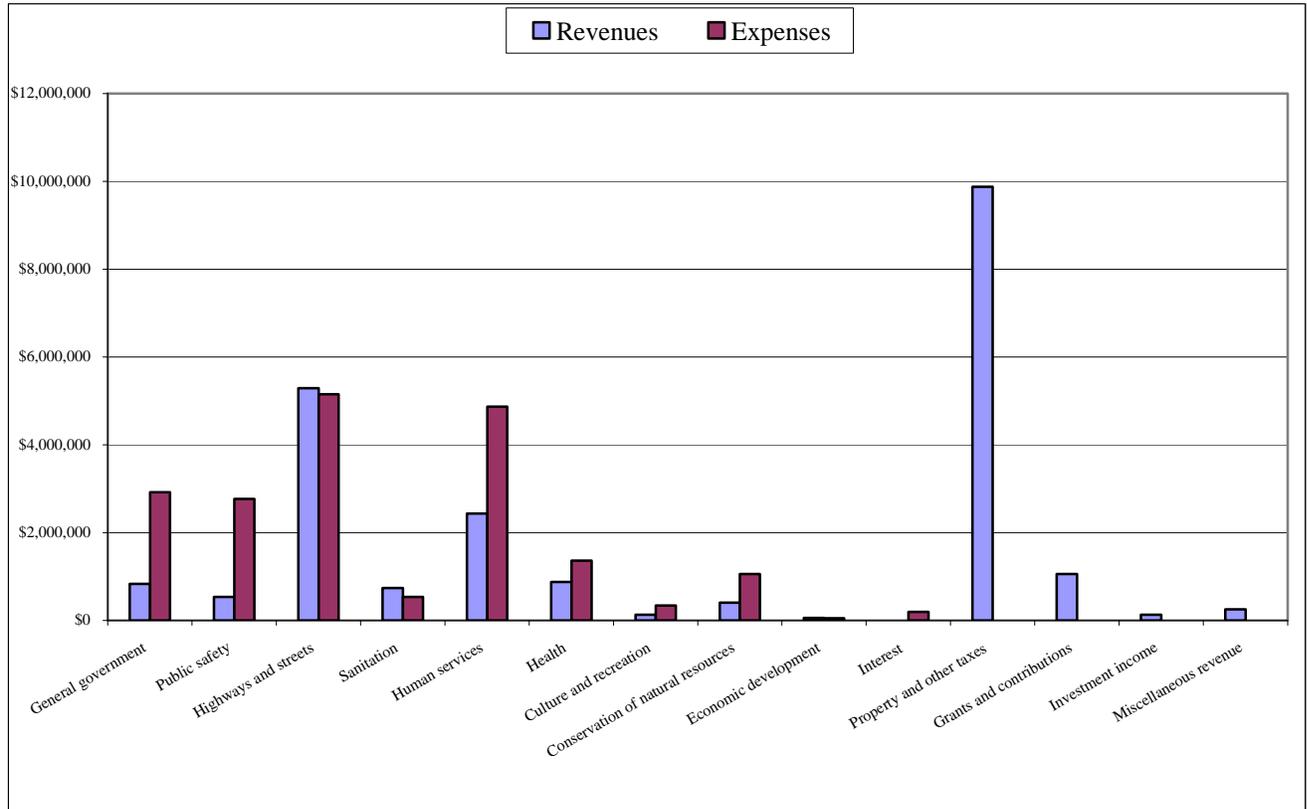


Table 4 presents the cost and revenue of each program, as well as the County’s general revenues.

Total revenues for the County were \$22,614,095, while total expenses were \$19,246,940. This reflects a \$3,367,155 increase in net assets for the year ended December 31, 2011.

**Table 4
Program Revenues and Expenses**



The cost of all governmental activities this year was \$19,246,940. 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 \$9,741,432, because some of the cost was paid by those who directly benefited from the programs (\$3,046,464) or by other governments and organizations that subsidized certain programs with grants and contributions (\$8,249,657). 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 2011	Net Cost of Services 2011
Highways and streets	\$ 5,150,198	\$ (139,350)
Human services	4,870,025	2,436,010
General government	2,916,808	2,085,497
Public safety	2,765,510	2,232,800
Health	1,358,730	478,856
All others	2,185,669	857,006
Totals	<u>\$ 19,246,940</u>	<u>\$ 7,950,819</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 \$14,198 more than the final budget amounts. One of the most significant negative variances (\$233,285) occurred in buildings and plant, where the expenditures exceeded amounts budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County’s capital assets for its governmental activities at December 31, 2011, totaled \$67,199,990 (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 \$1,468,482, or 2.2 percent, from the previous year. The major capital asset events were:

Construction of highways and streets	\$ 3,514,841
Construction in progress	1,245,298

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

	2011	2010
Land	\$ 1,874	\$ 1,773
Infrastructure	55,341	53,174
Buildings	5,517	2,245
Improvements other than building	466	492
Machinery and equipment	2,024	2,067
Construction in progress	1,978	5,980
Totals	<u>\$ 67,200</u>	<u>\$ 65,731</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, 2011, of \$4,100,779. 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 Human Services and Sheriff and copiers for various departments.

Table 5
Outstanding Debt

	2011	2010
General obligation improvement bonds	\$ 3,522,107	\$ 3,725,199
General obligation certificates of indebtedness	447,696	586,544
Leased squad and human services' cars	121,594	89,838
Leased copiers	9,382	12,988
Totals	<u>\$ 4,100,779</u>	<u>\$ 4,414,569</u>

Minnesota statutes limit the amount of debt a county may levy to 3 percent of its total market value. At the end of 2011, the County's outstanding debt was 0.15 percent of its total estimated market value.

Additional information on the County's long-term debt can be found in 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 2012 budget, tax rates, and fees that will be charged for the year.

- The average unemployment rate for Redwood County at the end of 2011 was 5.3 percent. This was slightly below the state unemployment rate of 5.8 percent and shows a decrease from the County's 6.4 percent rate of one year ago. The 2010 County population was 16,059, a decrease of 756 from the 2000 census of 16,815.
- At the end of 2011, Redwood County set its 2012 revenue and expenditure budgets.
- The property tax levy for the County remained unchanged for 2012 compared to 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, 2011**

Assets

Current assets

Cash and pooled investments	\$ 15,855,025
Investments	6,346,185
Taxes receivable	
Prior - net	120,235
Special assessments receivable	
Current - net	73,384
Prior - net	37,500
Noncurrent - net	267,164
Accounts receivable - net	109,216
Accrued interest receivable	33,263
Due from other governments	1,944,470
Loans receivable	61,155
Inventories	138,090
Prepaid items	31,236

Noncurrent assets

Deferred charges	31,861
Long-term receivables	173,580

Capital assets

Non-depreciable	3,852,025
Depreciable - net of accumulated depreciation	<u>63,347,965</u>

Total Assets **\$ 92,422,354**

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

***EXHIBIT 1
(Continued)***

**STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2011**

Liabilities

Current liabilities

Accounts payable	\$	415,973
Salaries payable		335,150
Contracts payable		236,606
Due to other governments		130,588
Accrued interest payable		63,720
Deferred revenue - unearned		20,647
Compensated absences payable - current		84,927
Other postemployment benefits payable - current		70,722
General obligation bonds payable - current		210,000
General obligation certificates of indebtedness payable - current		145,000
Capital leases payable - current		57,024
Loans payable - current		63,944

Noncurrent liabilities

Compensated absences payable		851,426
Other postemployment benefits payable		201,446
Capital leases payable		73,952
General obligation bonds payable - net		3,312,107
General obligation certificates of indebtedness payable - net		302,696
Loans payable		428,729

Total Liabilities

\$ 7,004,657

Net Assets

Invested in capital assets - net of related debt	\$	63,667,667
Restricted for		
Public safety		511,518
Highways and streets		2,501,718
Debt service		749,449
Other purposes		430,933
Unrestricted		17,556,412
Total Net Assets	\$	<u>85,417,697</u>

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	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	\$ 2,916,808	\$ 720,268	\$ 111,043	\$ -
Public safety	2,765,510	235,339	297,371	-
Highways and streets	5,150,198	193,354	5,060,069	36,125
Sanitation	536,540	685,524	55,950	-
Human services	4,870,025	305,404	2,128,611	-
Health	1,358,730	560,289	319,585	-
Culture and recreation	338,605	66,778	60,721	-
Conservation of natural resources	1,061,363	279,508	122,692	-
Economic development	53,495	-	57,490	-
Interest	195,666	-	-	-
Total Governmental Activities	\$ 19,246,940	\$ 3,046,464	\$ 8,213,532	\$ 36,125
General Revenues				
Property taxes				\$ 9,741,432
Other taxes				7,370
Payments in lieu of tax				128,059
Grants and contributions not restricted to specific programs				1,056,635
Investment income				129,162
Miscellaneous				255,316
Total general revenues				\$ 11,317,974
Change in net assets				\$ 3,367,155
Net Assets - Beginning				82,050,542
Net Assets - Ending				\$ 85,417,697

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	General	Road and Bridge	Human Services
<u>Assets</u>			
Cash and pooled investments	\$ 5,069,768	\$ 3,896,093	\$ 2,409,215
Petty cash and change funds	1,360	-	-
Undistributed cash in agency fund	163,447	29,639	56,880
Investments	3,954,503	-	-
Taxes receivable			
Delinquent	62,012	15,959	30,083
Special assessments receivable			
Delinquent	-	-	-
Noncurrent	326,155	-	-
Accounts receivable	9,161	3,200	44,665
Accrued interest receivable	15,733	-	-
Due from other funds	12,611	12,875	-
Due from other governments	113,432	1,480,845	262,241
Loans receivable	234,735	-	-
Inventories	-	138,090	-
Prepaid items	20,510	7,399	1,824
	\$ 9,983,427	\$ 5,584,100	\$ 2,804,908
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 36,515	\$ 31,190	\$ 183,459
Salaries payable	156,512	53,579	76,825
Contracts payable	11,549	225,057	-
Due to other funds	10,752	476	12,261
Due to other governments	54,691	6,185	20,405
Deferred revenue - unavailable	436,771	1,311,340	30,083
Deferred revenue - unearned	20,647	-	-
	\$ 727,437	\$ 1,627,827	\$ 323,033

EXHIBIT 3

Public Health Services	Solid Waste	Ditch	Debt Service	Total
\$ 1,628,344	\$ 886,198	\$ 1,223,115	\$ 442,743	\$ 15,555,476
200	30	-	-	1,590
13,528	17,688	4,996	11,781	297,959
-	412,100	1,626,982	352,600	6,346,185
7,122	-	-	5,059	120,235
-	37,277	223	-	37,500
-	-	14,393	-	340,548
49,265	2,925	-	-	109,216
272	1,814	14,458	986	33,263
970	-	175	-	26,631
54,262	-	33,690	-	1,944,470
-	-	-	-	234,735
-	-	-	-	138,090
1,474	29	-	-	31,236
\$ 1,755,437	\$ 1,358,061	\$ 2,918,032	\$ 813,169	\$ 25,217,134
\$ 3,688	\$ 31,076	\$ 130,045	\$ -	\$ 415,973
36,320	8,910	3,004	-	335,150
-	-	-	-	236,606
437	2,581	124	-	26,631
37,118	92	12,097	-	130,588
7,122	39,091	33,732	6,045	1,864,184
-	-	-	-	20,647
\$ 84,685	\$ 81,750	\$ 179,002	\$ 6,045	\$ 3,029,779

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	General	Road and Bridge	Human Services
<u>Liabilities and Fund Balances</u>			
(Continued)			
Fund Balances			
Nonspendable			
Inventories	\$ -	\$ 138,090	\$ -
Loans receivable	234,735	-	-
Prepaid items	20,510	7,399	1,824
Restricted for			
Attorney's forfeited property	8,246	-	-
Broadband grant study	40,000	-	-
Election equipment grant	10,781	-	-
Enhanced 911	453,258	-	-
Gun permit fees	30,035	-	-
Highway allotments	-	1,504,154	-
Debt service	-	-	-
Ditch maintenance, repair, and other	-	-	-
Missing heirs	1,552	-	-
Recorder's equipment	184,199	-	-
Recorder's technology fund	149,401	-	-
Restricted contributions	2,000	30,000	-
Septic/sewer loans	166,518	-	-
Sheriff's contingency	5,496	-	-
Sheriff's DWI assessment	21,300	-	-
Sheriff's forfeited property	21,124	-	-
Unspent grant monies	94	-	-
Victim assistance	22,346	-	-
2008A General Obligation Bond	430,053	-	-
2008B General Obligation Equipment Certificate	81,102	-	-
Committed for			
Law enforcement remodel contract	4,936	-	-
GIS mapping contract	69,298	-	-
Paging system contract	67,317	-	-
RCEDA revolving loan - 2008	31,604	-	-
RCEDA revolving loan - 2011	125,010	-	-
Restorative justice	81,540	-	-
Retiree health insurance	913	-	-
Sheriff canteen	7,505	-	-
SW radio grant match	13,350	-	-
WESCAP valley area transit	6,525	-	-
ARMER	1,146,587	-	-

EXHIBIT 3
(Continued)

<u>Public</u> <u>Health Services</u>	<u>Solid Waste</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ 138,090
-	-	-	-	234,735
1,474	29	-	-	31,236
-	-	-	-	8,246
-	-	-	-	40,000
-	-	-	-	10,781
-	-	-	-	453,258
-	-	-	-	30,035
-	-	-	-	1,504,154
-	-	-	807,124	807,124
-	-	1,843,980	-	1,843,980
-	-	-	-	1,552
-	-	-	-	184,199
-	-	-	-	149,401
-	-	-	-	32,000
-	-	-	-	166,518
-	-	-	-	5,496
-	-	-	-	21,300
-	-	-	-	21,124
-	45,000	-	-	45,094
-	-	-	-	22,346
-	-	-	-	430,053
-	-	-	-	81,102
-	-	-	-	4,936
-	-	-	-	69,298
-	-	-	-	67,317
-	-	-	-	31,604
-	-	-	-	125,010
-	-	-	-	81,540
-	-	-	-	913
-	-	-	-	7,505
-	-	-	-	13,350
-	-	-	-	6,525
-	-	-	-	1,146,587

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	General	Road and Bridge	Human Services
<u>Liabilities and Fund Balances</u>			
Fund Balances (Continued)			
Assigned for			
AS400 computer	40,000	-	-
Assessor tax court	30,000	-	-
Beyond the yellow ribbon	2,500	-	-
Compensated absences	397,353	190,763	219,261
Comprehensive environment	3,000	-	-
Courthouse car	25,000	-	-
Election	54,868	-	-
Employee flu shots	2,000	-	-
Flood coverage	740	-	-
Forfeited tax	100,000	-	-
Future county EDA	10,000	-	-
Future ditch loans	-	-	-
Future jail project	1,000,000	-	-
Grand jury	20,000	-	-
Highways and streets	-	2,066,517	-
HSA account	1,050	-	-
Human services	-	-	2,260,790
Implementation of GASB	8,298	-	-
L.E. dog fund	1,367	-	-
Maintenance equipment	25,000	-	-
Park improvements	18,280	-	-
Postemployment benefits	500,000	19,350	-
Public health	-	-	-
Safety committee	3,000	-	-
Sand creek staff training	3,000	-	-
ServSafe classes	390	-	-
Solid waste	-	-	-
Staff development	6,500	-	-
Staff insurance	306,763	-	-
Staff insurance - VEBA	8,550	-	-
SW radio board land acquisition	4,083	-	-
VSO van purchase	21,997	-	-
Unassigned	3,224,916	-	-
	\$ 9,255,990	\$ 3,956,273	\$ 2,481,875
Total Fund Balances	\$ 9,255,990	\$ 3,956,273	\$ 2,481,875
Total Liabilities and Fund Balances	\$ 9,983,427	\$ 5,584,100	\$ 2,804,908

EXHIBIT 3
(Continued)

<u>Public Health Services</u>	<u>Solid Waste</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
-	-	-	-	40,000
-	-	-	-	30,000
-	-	-	-	2,500
119,741	9,235	-	-	936,353
-	-	-	-	3,000
-	-	-	-	25,000
-	-	-	-	54,868
-	-	-	-	2,000
-	-	-	-	740
-	-	-	-	100,000
-	-	-	-	10,000
-	-	895,050	-	895,050
-	-	-	-	1,000,000
-	-	-	-	20,000
-	-	-	-	2,066,517
-	-	-	-	1,050
-	-	-	-	2,260,790
-	-	-	-	8,298
-	-	-	-	1,367
-	-	-	-	25,000
-	-	-	-	18,280
-	-	-	-	519,350
1,549,537	-	-	-	1,549,537
-	-	-	-	3,000
-	-	-	-	3,000
-	-	-	-	390
-	1,222,047	-	-	1,222,047
-	-	-	-	6,500
-	-	-	-	306,763
-	-	-	-	8,550
-	-	-	-	4,083
-	-	-	-	21,997
-	-	-	-	3,224,916
<u>\$ 1,670,752</u>	<u>\$ 1,276,311</u>	<u>\$ 2,739,030</u>	<u>\$ 807,124</u>	<u>\$ 22,187,355</u>
<u>\$ 1,755,437</u>	<u>\$ 1,358,061</u>	<u>\$ 2,918,032</u>	<u>\$ 813,169</u>	<u>\$ 25,217,134</u>

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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, 2011**

Fund balance - total governmental funds (Exhibit 3)		\$	22,187,355
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.			67,199,990
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			1,864,184
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	\$	(450,000)	
Bonds payable		(3,545,000)	
Leases payable		(130,976)	
Other postemployment benefits		(272,168)	
Compensated absences		(936,353)	
Loans payable		(492,673)	
Deferred debt issuance charges		31,861	
Unamortized discount on notes		25,197	
Accrued interest payable		(63,720)	
		<u>(63,720)</u>	<u>(5,833,832)</u>
Net Assets of Governmental Activities (Exhibit 1)			<u>\$ 85,417,697</u>

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>
Revenues			
Taxes	\$ 5,061,195	\$ 1,254,910	\$ 2,384,581
Special assessments	88,361	-	-
Licenses and permits	42,941	-	-
Intergovernmental	1,381,930	5,275,722	2,322,049
Charges for services	692,685	6,948	308,041
Gifts and contributions	29,933	-	-
Investment earnings	62,874	1,597	-
Miscellaneous	575,456	186,406	34,419
Total Revenues	\$ 7,935,375	\$ 6,725,583	\$ 5,049,090
Expenditures			
Current			
General government	\$ 3,344,381	\$ -	\$ -
Public safety	2,648,377	-	-
Highways and streets	-	5,927,026	-
Sanitation	-	-	-
Human services	-	-	4,891,477
Health	-	-	-
Culture and recreation	229,952	-	-
Conservation of natural resources	558,967	-	-
Economic development	53,495	-	-
Intergovernmental	104,931	434,812	-
Debt service			
Principal	103,127	-	3,982
Interest	31,105	-	1,394
Administrative charges	-	-	-
Total Expenditures	\$ 7,074,335	\$ 6,361,838	\$ 4,896,853
Excess of Revenues Over (Under) Expenditures	\$ 861,040	\$ 363,745	\$ 152,237
Other Financing Sources (Uses)			
Capital lease/installment purchase	\$ 76,883	\$ -	\$ -
Loans issued	87,941	-	-
Total Other Financing Sources (Uses)	\$ 164,824	\$ -	\$ -
Net Change in Fund Balance	\$ 1,025,864	\$ 363,745	\$ 152,237
Fund Balance - January 1, Note 1.D.9.	8,230,126	3,622,431	2,329,638
Increase (decrease) in inventories	-	(29,903)	-
Fund Balance - December 31	\$ 9,255,990	\$ 3,956,273	\$ 2,481,875

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

EXHIBIT 5

Public Health Services	Solid Waste	Ditch	Debt Service	Total
\$ 576,799	\$ -	\$ -	\$ 496,237	\$ 9,773,722
-	353,528	157,793	-	599,682
-	1,000	-	-	43,941
365,410	55,955	72,580	29,736	9,503,382
565,264	-	-	-	1,572,938
84	-	-	-	30,017
8,660	7,150	44,212	2,919	127,412
5,501	326,327	464	-	1,128,573
\$ 1,521,718	\$ 743,960	\$ 275,049	\$ 528,892	\$ 22,779,667
\$ -	\$ -	\$ -	\$ -	\$ 3,344,381
-	-	-	-	2,648,377
-	-	-	-	5,927,026
-	545,520	-	-	545,520
-	-	-	-	4,891,477
1,352,272	-	-	-	1,352,272
-	-	-	-	229,952
-	-	496,291	-	1,055,258
-	-	-	-	53,495
-	-	-	-	539,743
1,240	-	-	345,000	453,349
362	-	-	157,928	190,789
-	-	-	850	850
\$ 1,353,874	\$ 545,520	\$ 496,291	\$ 503,778	\$ 21,232,489
\$ 167,844	\$ 198,440	\$ (221,242)	\$ 25,114	\$ 1,547,178
\$ -	\$ -	\$ -	\$ -	\$ 76,883
-	-	-	-	87,941
\$ -	\$ -	\$ -	\$ -	\$ 164,824
\$ 167,844	\$ 198,440	\$ (221,242)	\$ 25,114	\$ 1,712,002
1,502,908	1,077,871	2,960,272	782,010	20,505,256
-	-	-	-	(29,903)
\$ 1,670,752	\$ 1,276,311	\$ 2,739,030	\$ 807,124	\$ 22,187,355

**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, 2011**

Net change in fund balance - total governmental funds (Exhibit 5) \$ 1,712,002

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	\$ 1,864,184	
Deferred revenue - January 1	(2,029,691)	(165,507)

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	\$ 3,649,450	
Net book value of assets disposed of	(92,984)	
Current year depreciation	(2,087,984)	1,468,482

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	\$ 205,000	
General obligation equipment certificates of indebtedness	140,000	
Loans payable	59,616	
Leases payable	48,733	453,349
 New debt issued - net of discounts (see Note 2.C.5. for more information)		 (168,031)

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	\$ 4,166	
Change in compensated absences	(3,867)	
Change in other postemployment benefits	104,657	
Change in inventories	(29,903)	
Amortization of discounts and deferred debt issuance charges	(8,193)	66,860

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 3,367,155

FIDUCIARY FUNDS

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2011**

<u>Assets</u>	
Cash and pooled investments	<u>\$ 541,577</u>
<u>Liabilities</u>	
Accounts payable	\$ 169,216
Due to other governments	<u>372,361</u>
Total Liabilities	<u>\$ 541,577</u>

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011

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, 2011. 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 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 Fund.

<u>Component Unit</u>	<u>Component Unit Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
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 4.D. The County also participates in jointly-governed organizations which are described in Note 4.E.

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 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 and blended component units. 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 accounted for in another fund. The Building Special Revenue Fund was included in the General Fund starting with the 2011 year.

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

The Human Services Special Revenue Fund accounts for restricted revenue resources from the federal, state, and other oversight agencies, as well as committed property tax revenues used for economic assistance and community social services programs.

The Public Health Services Special Revenue Fund accounts for restricted revenue resources from the federal, state, and other oversight agencies, as well as committed property tax revenues used for community health programs.

The Solid Waste Special Revenue Fund accounts for restricted special assessment revenues, miscellaneous revenues, revenue resources from the state, and through an appropriation from the General Fund for the costs relating to disposal of the County's solid waste.

**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 accounts for special assessment revenues levied against benefitted property to finance the cost of constructing and maintaining an agricultural drainage ditch system.

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.

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, 2011, 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 2011 were \$5,159.

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 nonspendable fund balance 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 or November 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 - 20
Intangible assets	3 - 7

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.

Delinquent property taxes	\$ 120,235
Delinquent and noncurrent special assessments	378,048
Interest on investments	13,722
Receivables that do not provide current financial resources	<u>1,352,179</u>
Total Deferred Revenue - Unavailable	<u>\$ 1,864,184</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 applicable 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. Classification of Net Assets

Net assets in the government-wide financial statements are classified in the following categories:

Invested in capital assets, net of related debt - net assets representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

8. Classification of Net Assets (Continued)

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

Unrestricted net assets - net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

9. Classification of Fund Balances

In 2011, the County implemented the requirements of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The statement requires retroactive restatement of fund balance for the reclassifications made to conform to this statement. Total fund balance did not change.

	General Fund	Building Special Revenue Fund
Fund Balance - December 31, 2010	\$ 6,004,088	\$ 2,226,038
Reclassification	2,226,038	(2,226,038)
Fund Balance - January 1, 2011	\$ 8,230,126	\$ -

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

Nonspendable - the nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

9. Classification of Fund Balances (Continued)

Restricted - fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

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

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

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

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Minimum Fund Balance

Redwood County has adopted a minimum fund balance policy for the General Fund. The General Fund is heavily reliant on property tax revenues to fund current operations. However, current property tax revenues are not available for distribution until June. Therefore, the County Board has determined they need to maintain a minimum unrestricted fund balance (committed, assigned, and unassigned) of no less than three months of operating expenditures. The fund balance policy was adopted by the County Board on December 27, 2011. At December 31, 2011, unrestricted fund balance for the General Fund was at or above the minimum fund balance level.

11. 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.

12. Reclassifications

Several account balances were reclassified as of and for the year ended December 31, 2010, as previously reported due to implementation of GASB 54. These reclassifications were required for comparability to the financial statements as of and for the year ended December 31, 2011. Although comparative statements for 2010 are not presented here, these reclassifications must be considered when comparing the financial statements of this report with those of prior reports.

E. Potential Impact of New Accounting Standards on Current Period Financial Statements

The GASB has approved GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Application of GASB Statement 63 may restate portions of these financial statements.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

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	\$ 15,855,025
Investments	6,346,185
Statement of fiduciary net assets	
Cash and pooled investments	541,577
Total Cash and Investments	\$ 22,742,787

Deposits	
Checking	\$ 265,378
Money market savings	1,686,796
Certificates of deposit	992,488
Invested in MAGIC Fund	14,427,300
Invested in mutual funds	50
Invested in Federal Home Loan Bank bonds	300,000
Invested in Federal Home Loan Mortgage Corporation notes	999,000
Invested in negotiable certificates of deposit	4,070,185
Petty cash and change funds	1,590
Total Deposits, Cash on Hand, and Investments	\$ 22,742,787

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.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated “A” or better or 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, 2011, the County’s deposits were not exposed to custodial credit risk.

b. Investments

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

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County'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.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County'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) and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. As of December 31, 2011, the County's investments were not exposed to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County's cash and investment balances at December 31, 2011, 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	AA+	S&P	<5%	01/27/17	\$ 100,000
Federal Home Loan Bank Bonds	AA+	S&P	<5%	09/09/21	200,000
Total Federal Home Loan Bank Bonds					\$ 300,000
Federal Home Loan Mortgage Corporation Notes	AA+	S&P	>5%	07/13/21	\$ 999,000
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	>5%	N/A	\$ 14,427,300
Federated Prime Obligations Fund	N/R	N/A	<5%	N/A	50
Total investment pools/ mutual funds					\$ 14,427,350
Negotiable certificates of deposit	N/A	N/A	>5%	Varies	\$ 4,070,185
Total investments					\$ 19,796,535
Checking					265,378
Savings					1,686,796
Certificates of deposit					992,488
Petty cash and change funds					1,590
Total Cash and Investments					\$ 22,742,787

N/A - Not Applicable

N/R - Not Rated

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

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

2. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 454,148	\$ 7,917	\$ -	\$ 462,065
Right-of-way	1,318,255	93,594	-	1,411,849
Construction in progress	5,980,439	1,245,298	5,247,626	1,978,111
Total capital assets not depreciated	<u>\$ 7,752,842</u>	<u>\$ 1,346,809</u>	<u>\$ 5,247,626</u>	<u>\$ 3,852,025</u>
Capital assets depreciated				
Buildings	\$ 5,802,352	\$ 3,438,008	\$ 13,155	\$ 9,227,205
Improvements other than building	542,842	-	-	542,842
Machinery and equipment	7,275,760	501,440	313,780	7,463,420
Infrastructure	70,969,378	3,610,819	-	74,580,197
Total capital assets depreciated	<u>\$ 84,590,332</u>	<u>\$ 7,550,267</u>	<u>\$ 326,935</u>	<u>\$ 91,813,664</u>
Less: accumulated depreciation for				
Buildings	\$ 3,557,030	\$ 158,508	\$ 5,840	\$ 3,709,698
Improvements other than building	50,694	26,036	-	76,730
Machinery and equipment	5,208,645	459,148	228,111	5,439,682
Infrastructure	17,795,297	1,444,292	-	19,239,589
Total accumulated depreciation	<u>\$ 26,611,666</u>	<u>\$ 2,087,984</u>	<u>\$ 233,951</u>	<u>\$ 28,465,699</u>
Total capital assets depreciated, net	<u>\$ 57,978,666</u>	<u>\$ 5,462,283</u>	<u>\$ 92,984</u>	<u>\$ 63,347,965</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 65,731,508</u>	<u>\$ 6,809,092</u>	<u>\$ 5,340,610</u>	<u>\$ 67,199,990</u>

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

General government	\$ 230,111
Public safety	233,182
Highways and streets, including depreciation of infrastructure assets	1,572,575
Sanitation	24,365
Human services	7,783
Health	6,224
Culture and recreation	11,420
Conservation of natural resources	2,324
Total Depreciation Expense - Governmental Activities	<u>\$ 2,087,984</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, 2011, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Human Services	\$ 11,929
	Public Health Services	381
	Road and Bridge	<u>301</u>
Total due to General Fund		<u>\$ 12,611</u>
Road and Bridge	General	\$ 10,088
	Ditch	124
	Human Services	26
	Public Health Services	56
	Solid Waste	<u>2,581</u>
Total due to Road and Bridge Fund		<u>\$ 12,875</u>
Public Health Services	General	\$ 664
	Human Services	<u>306</u>
Total due to Public Health Services Fund		<u>\$ 970</u>
Ditch	Road and Bridge	<u>\$ 175</u>
Total Due To/From Other Funds		<u><u>\$ 26,631</u></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, 2011.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Construction and Other Commitments

The government has active construction projects and other commitments as of December 31, 2011. The projects and commitments include the following:

	Spent-to-Date	Remaining Commitment
Building projects	\$ -	\$ 4,936
GIS mapping	87,360	69,298
Paging system	-	67,317

The remaining commitment for highway projects are state-funded and, therefore, not obligations of the County at December 31, 2011.

2. Long-Term Debt

Loans Payable

Beginning in 2003, the County entered into loan agreements with the Minnesota Pollution Control Agency for financing groundwater improvement projects. The loans are 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, 2011
Clean water loans					
Cottonwood River Restoration/ Continuation	2017	\$ 21,245	2.00	\$ 434,219	\$ 165,830
Redwood River Watershed Project Continuation	2017	6,326	2.00	127,675	71,201
Cottonwood River Watershed Redwood River Watershed	2020	4,602	2.00	83,052	75,470
Phosphorus TMDL	2021	1,900	2.00	34,281	34,281
Middle Minnesota Cottonwood River Watershed	2020	1,445	2.00	26,068	23,688
Phosphorus TMDL	-	-	-	87,144	87,144
Middle Minnesota Continuation	-	-	-	35,059	35,059
Total					\$ 492,673

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities

2. Long-Term Debt

Loans Payable (Continued)

The Cottonwood River Watershed Phosphorus TMDL and Middle Minnesota Continuation water loans do not have fixed amortization schedules.

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 are 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, 2011</u>
2008 General Obligation Improvement Bond, Series 2008A	2024	\$170,000 - \$355,000	3.00 - 4.50	<u>\$ 3,920,000</u>	\$ 3,545,000
Less: unamortized discount					<u>(22,893)</u>
Improvement Bond					<u>\$ 3,522,107</u>
2008 General Obligation Certificate of Indebtedness, Series 2008B	2014	\$130,000 - \$155,000	2.50 - 3.40	<u>\$ 720,000</u>	\$ 450,000
Less: unamortized discount					<u>(2,304)</u>
Certificate of Indebtedness					<u>\$ 447,696</u>
Total General Obligation Bonds, Certificates, and Notes, Net					<u><u>\$ 3,969,803</u></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, 2011, were as follows:

<u>Year Ending December 31</u>	General Obligation Bonds, Certificates of Indebtedness, and Capital Notes	
	Principal	Interest
2012	\$ 355,000	\$ 147,602
2013	370,000	136,577
2014	380,000	124,642
2015	235,000	114,413
2016	245,000	106,007
2017 - 2021	1,400,000	373,516
2022 - 2024	1,010,000	68,928
Total	\$ 3,995,000	\$ 1,071,685

<u>Year Ending December 31</u>	Loans Payable	
	Principal	Interest
2012	\$ 63,943	\$ 7,091
2013	60,189	5,806
2014	54,233	4,657
2015	55,323	3,567
2016	56,435	2,455
2017 - 2021	80,347	3,334
Total	\$ 370,470	\$ 26,910

Clean water loans of \$87,144 for the Cottonwood River Watershed Phosphorus TMDL and \$35,059 for the Middle Minnesota Continuation are not included in the debt service requirements because fixed repayment schedules are 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, 2011:

<u>Lease</u>	<u>Final Maturity</u>	<u>Installments</u>	<u>Payment Amount</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2011</u>
2009 Crown Victoria	2013	Monthly	\$ 1,025	\$ 27,000	\$ 13,759
2009 Crown Victoria	2013	Monthly	1,025	27,000	13,598
2008 Crown Victoria	2012	Monthly	859	20,945	5,281
2010 Crown Victoria	2014	Monthly	667	28,928	15,727
2011 Crown Victoria	2015	Monthly	648	25,601	20,631
2011 Crown Victoria	2015	Monthly	663	25,496	20,664
2011 Crown Victoria	2015	Monthly	648	25,786	20,852
HS 2010 Chevy Impala	2014	Monthly	448	17,498	11,082
Admn. Sharp Copier	2014	Monthly	155	7,286	3,581
Sheriff Sharp Copier	2014	Monthly	104	5,067	2,438
PHS Sharp Copier	2014	Monthly	134	6,535	3,363
Total Capital Leases					<u>\$ 130,976</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2011, were as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2012	\$ 72,215
2013	51,853
2014	27,027
2015	1,960
Total minimum lease payments	\$ 153,055
Less: amount representing interest	<u>(22,079)</u>
Present Value of Minimum Lease Payments	<u>\$ 130,976</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, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds and notes payable					
General obligation certificates	\$ 590,000	\$ -	\$ 140,000	\$ 450,000	\$ 145,000
General obligation bond	3,750,000	-	205,000	3,545,000	210,000
Less: deferred amounts for issuance discounts	(28,257)	-	(3,060)	(25,197)	-
Total bonds and notes payable	\$ 4,311,743	\$ -	\$ 341,940	\$ 3,969,803	\$ 355,000
Clean water loans payable	461,141	91,148	59,616	492,673	63,944
Compensated absences	932,486	3,867	-	936,353	84,927
Other postemployment benefits	376,825	124,056	228,713	272,168	70,722
Capital leases	102,826	76,883	48,733	130,976	57,024
Governmental Activities Long-Term Liabilities	<u>\$ 6,185,021</u>	<u>\$ 295,954</u>	<u>\$ 679,002</u>	<u>\$ 5,801,973</u>	<u>\$ 631,617</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.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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).

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.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For all General 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 with a minimum of three years of service, and either 65 or 66 (depending on date hired) for General 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 General 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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2011:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	14.40
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2011, 2010, and 2009, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2011	2010	2009
General Employees Retirement Fund	\$ 417,070	\$ 414,365	\$ 403,877
Public Employees Police and Fire Fund	93,466	88,913	82,213
Public Employees Correctional Fund	38,250	36,607	38,261

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

B. Defined Contribution Plan

Four 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.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employees may 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, 2011, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 5,733	\$ 5,733
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 and 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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB)

Plan Description (Continued)

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. The elected official who retires between age 55 and 65, with at least 10 years of service with Redwood County, qualifies for health insurance benefits. The amount paid by the County will not exceed the amount that the County contributes 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 and after a maximum of 6 years for elected officials. As of year-end December 31, 2011, 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 2011, the County expended \$74,648 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. In 2011, a minor adjustment was made to the estimated amount of contributions to reflect the estimated net OPEB obligation per the actuarial valuation. 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	\$	107,490
Interest on net OPEB obligation		7,814
Adjustment to ARC		(13,096)
		Annual OPEB cost (expense)
Annual OPEB cost (expense)	\$	102,208
Contributions made		(206,865)
		Decrease in net OPEB obligation
Decrease in net OPEB obligation	\$	(104,657)
Net OPEB Obligation - Beginning of Year		376,825
		Net OPEB Obligation - End of Year
Net OPEB Obligation - End of Year	\$	272,168

**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, 2010, and 2011, 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
December 31, 2011	102,208	206,865	202.4	272,168

Funded Status and Funding Progress

As of January 1, 2011, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$1,100,130, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,100,130. The covered payroll (annual payroll of active employees covered by the plan) was \$7,009,082, and the ratio of the UAAL to the covered payroll was 15.7 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 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, 2011, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3.0 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 8.0 percent initially, reduced by decrements to an ultimate rate of 4.0 percent over 8 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, 2011, was 26 years.

4. Summary of Significant Contingencies and Other Items

A. 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. Summary of Significant Contingencies and Other Items

A. 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 2011 and \$460,000 per claim in 2012. 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.

B. Contingent Liabilities

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

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

Lincoln-Pipestone Rural Water System

At December 31, 2011, the Lincoln-Pipestone Rural Water System had \$36,595,000 of general obligation bonds outstanding through 2052. 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**

4. Summary of Significant Contingencies and Other Items

B. 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.

In 2012, Lincoln County issued a General Obligation Water System Refunding Bond for \$1,050,000 on behalf of the Lincoln-Pipestone Rural Water System to crossover advance refund the General Obligation Water System Refunding Bonds, Series 2003.

C. Subsequent Events

During April 2012, Redwood County made written application for the County's health and human service functions to join Southwest Health and Human Services (SWHHS) as of January 1, 2013. The Joint Board of SWHHS approved the request in May 2012.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

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

D. 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 a Board appointed by the District Court. The Rural Water System's Board is solely responsible for the budgeting and financing of the Rural Water System.

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, 2011, were \$36,595,000.

The Lincoln-Pipestone Rural Water System's 2011 financial report shows total net assets of \$48,544,818, including unrestricted net assets of \$19,843,138. The increase in net assets for the year ended December 31, 2011, was \$6,120,627

Complete financial statements of the Lincoln-Pipestone Rural Water System can be obtained at 415 East Benton Street, P. O. Box 188, Lake Benton, Minnesota 56149-0188.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Red Rock Rural Water System

The Red Rock Rural Water System was established pursuant to Minn. Stat. ch. 116A through a joint powers agreement pursuant to Minn. Stat. § 471.59 and under the jurisdiction of the Fifth Judicial District. Brown, Cottonwood, 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, 2010 (the latest information available), were \$11,595,000. The Water System's net assets increased by \$2,442,689 in 2010.

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

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.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

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 2011, Redwood County made no contributions to the Joint Powers Board.

Complete financial statements for the Minnesota River Basin Joint Powers Board can be obtained from its administrative office at 135 Trafton Science Center South, Minnesota State University - Mankato, Mankato, Minnesota 56001.

Southwestern Minnesota Adult Mental Health Consortium Board

Big Stone, Chippewa, Cottonwood, Jackson, Kandiyohi, Lac qui Parle, McLeod, Meeker, Nobles, Pipestone, Redwood, Renville, Rock, Swift, and Yellow Medicine Counties; and Lincoln, Lyon, and Murray Counties, represented by Southwest Health and Human Services, created 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.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

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.

E. 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.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations (Continued)

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 2011.

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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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 5,039,246	\$ 5,039,246	\$ 5,061,195	\$ 21,949
Special assessments	66,202	66,202	88,361	22,159
Licenses and permits	35,640	35,640	42,941	7,301
Intergovernmental	1,370,559	1,370,559	1,381,930	11,371
Charges for services	603,500	610,290	692,685	82,395
Gifts and contributions	5,000	5,000	29,933	24,933
Investment earnings	40,546	40,546	62,874	22,328
Miscellaneous	340,968	342,068	575,456	233,388
Total Revenues	\$ 7,501,661	\$ 7,509,551	\$ 7,935,375	\$ 425,824
Expenditures				
Current				
General government				
Commissioners	\$ 246,249	\$ 246,249	\$ 221,581	\$ 24,668
Law library	-	-	14,716	(14,716)
County administration	300,625	301,725	263,205	38,520
Administrator	240,544	240,544	229,787	10,757
Auditor-Treasurer	333,511	330,511	332,064	(1,553)
License center	140,067	140,067	139,512	555
Assessor	312,617	312,617	284,033	28,584
Elections	25,000	25,000	9,048	15,952
Computer	249,756	249,756	224,088	25,668
Attorney	329,048	332,048	340,567	(8,519)
Recorder	245,238	245,238	217,856	27,382
Buildings and plant	684,555	691,055	924,340	(233,285)
Veterans service officer	160,448	160,448	143,584	16,864
Other general government	9,675	9,675	-	9,675
Total general government	\$ 3,277,333	\$ 3,284,933	\$ 3,344,381	\$ (59,448)
Public safety				
Sheriff	\$ 2,183,972	\$ 2,183,972	\$ 2,109,339	\$ 74,633
Coroner	13,000	13,000	15,681	(2,681)
E-911 system	80,182	80,182	66,089	14,093
Probation and parole	349,183	299,534	284,767	14,767
Restorative justice	66,019	66,019	58,894	7,125
Sentence to Serve	-	39,031	14,875	24,156
Emergency management	67,965	67,965	65,404	2,561
Other public safety	18,100	18,100	33,328	(15,228)
Total public safety	\$ 2,778,421	\$ 2,767,803	\$ 2,648,377	\$ 119,426

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<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	\$ 2,080	\$ 620
Parks	107,320	111,320	123,701	(12,381)
Minnesota trails	93,286	93,286	55,971	37,315
Other	48,500	48,500	48,200	300
Total culture and recreation	\$ 251,806	\$ 255,806	\$ 229,952	\$ 25,854
Conservation of natural resources				
Extension	\$ 97,536	\$ 97,536	\$ 93,536	\$ 4,000
Agricultural inspection	202,503	202,503	203,660	(1,157)
Water quality loan program	30,000	30,000	87,941	(57,941)
Other	173,842	173,842	173,830	12
Total conservation of natural resources	\$ 503,881	\$ 503,881	\$ 558,967	\$ (55,086)
Economic development				
Other	\$ 87,641	\$ 87,641	\$ 53,495	\$ 34,146
Intergovernmental				
Library	\$ 104,931	\$ 104,931	\$ 104,931	\$ -
Debt service				
Principal	\$ 49,655	\$ 49,655	\$ 103,127	\$ (53,472)
Interest	\$ 5,487	\$ 5,487	\$ 31,105	\$ (25,618)
Total Expenditures	\$ 7,059,155	\$ 7,060,137	\$ 7,074,335	\$ (14,198)
Excess of Revenues Over (Under)				
Expenditures	\$ 442,506	\$ 449,414	\$ 861,040	\$ 411,626
Other Financing Sources (Uses)				
Capital lease/installment purchase	\$ -	\$ -	\$ 76,883	\$ 76,883
Loans issued	30,000	30,000	87,941	57,941
Total Other Financing Sources (Uses)	\$ 30,000	\$ 30,000	\$ 164,824	\$ 134,824
Net Change in Fund Balance	\$ 472,506	\$ 479,414	\$ 1,025,864	\$ 546,450
Fund Balance - January 1	8,230,126	8,230,126	8,230,126	-
Fund Balance - December 31	\$ 8,702,632	\$ 8,709,540	\$ 9,255,990	\$ 546,450

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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,248,359	\$ 1,248,359	\$ 1,254,910	\$ 6,551
Intergovernmental	4,732,641	4,732,641	5,275,722	543,081
Charges for services	20,000	20,000	6,948	(13,052)
Investment earnings	2,000	2,000	1,597	(403)
Miscellaneous	50,000	50,000	186,406	136,406
Total Revenues	\$ 6,053,000	\$ 6,053,000	\$ 6,725,583	\$ 672,583
Expenditures				
Current				
Highways and streets				
Administration	\$ 524,000	\$ 524,000	\$ 396,774	\$ 127,226
Maintenance	1,794,000	1,794,000	1,668,735	125,265
Construction	3,215,000	3,215,000	3,015,164	199,836
Equipment and maintenance shops	670,000	670,000	846,353	(176,353)
Total highways and streets	\$ 6,203,000	\$ 6,203,000	\$ 5,927,026	\$ 275,974
Intergovernmental				
Highways and streets	375,000	375,000	434,812	(59,812)
Total Expenditures	\$ 6,578,000	\$ 6,578,000	\$ 6,361,838	\$ 216,162
Net Change in Fund Balance	\$ (525,000)	\$ (525,000)	\$ 363,745	\$ 888,745
Fund Balance - January 1	3,622,431	3,622,431	3,622,431	-
Increase (decrease) in inventories	-	-	(29,903)	(29,903)
Fund Balance - December 31	\$ 3,097,431	\$ 3,097,431	\$ 3,956,273	\$ 858,842

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,371,580	\$ 2,371,580	\$ 2,384,581	\$ 13,001
Intergovernmental	2,529,033	2,529,033	2,322,049	(206,984)
Charges for services	193,750	193,750	308,041	114,291
Miscellaneous	<u>73,750</u>	<u>73,750</u>	<u>34,419</u>	<u>(39,331)</u>
Total Revenues	<u>\$ 5,168,113</u>	<u>\$ 5,168,113</u>	<u>\$ 5,049,090</u>	<u>\$ (119,023)</u>
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,593,139	\$ 1,593,139	\$ 1,493,631	\$ 99,508
Social services	<u>3,574,974</u>	<u>3,574,974</u>	<u>3,397,846</u>	<u>177,128</u>
Total human services	<u>\$ 5,168,113</u>	<u>\$ 5,168,113</u>	<u>\$ 4,891,477</u>	<u>\$ 276,636</u>
Debt service				
Principal	-	-	3,982	(3,982)
Interest	<u>-</u>	<u>-</u>	<u>1,394</u>	<u>(1,394)</u>
Total Expenditures	<u>\$ 5,168,113</u>	<u>\$ 5,168,113</u>	<u>\$ 4,896,853</u>	<u>\$ 271,260</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 152,237</u>	<u>\$ 152,237</u>
Fund Balance - January 1	<u>2,329,638</u>	<u>2,329,638</u>	<u>2,329,638</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 2,329,638</u></u>	<u><u>\$ 2,329,638</u></u>	<u><u>\$ 2,481,875</u></u>	<u><u>\$ 152,237</u></u>

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
PUBLIC HEALTH SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 573,726	\$ 573,726	\$ 576,799	\$ 3,073
Intergovernmental	352,565	352,565	365,410	12,845
Charges for services	549,066	549,066	565,264	16,198
Gifts and contributions	200	200	84	(116)
Investment earnings	12,000	12,000	8,660	(3,340)
Miscellaneous	3,700	3,700	5,501	1,801
Total Revenues	\$ 1,491,257	\$ 1,491,257	\$ 1,521,718	\$ 30,461
Expenditures				
Current				
Health				
Nursing service	\$ 1,511,151	\$ 1,511,151	\$ 1,352,272	\$ 158,879
Debt service				
Principal	-	-	1,240	(1,240)
Interest	-	-	362	(362)
Total Expenditures	\$ 1,511,151	\$ 1,511,151	\$ 1,353,874	\$ 157,277
Net Change in Fund Balance	\$ (19,894)	\$ (19,894)	\$ 167,844	\$ 187,738
Fund Balance - January 1	1,502,908	1,502,908	1,502,908	-
Fund Balance - December 31	\$ 1,483,014	\$ 1,483,014	\$ 1,670,752	\$ 187,738

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-5

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 355,662	\$ 355,662	\$ 353,528	\$ (2,134)
Licenses and permits	850	850	1,000	150
Intergovernmental	55,000	55,000	55,955	955
Investment earnings	5,000	5,000	7,150	2,150
Miscellaneous	284,000	284,000	326,327	42,327
Total Revenues	\$ 700,512	\$ 700,512	\$ 743,960	\$ 43,448
Expenditures				
Current				
Sanitation				
Solid waste	\$ 295,401	\$ 295,401	\$ 271,333	\$ 24,068
Recycling	334,500	334,500	264,836	69,664
Hazardous waste	10,000	10,000	9,351	649
Total Expenditures	\$ 639,901	\$ 639,901	\$ 545,520	\$ 94,381
Net Change in Fund Balance	\$ 60,611	\$ 60,611	\$ 198,440	\$ 137,829
Fund Balance - January 1	1,077,871	1,077,871	1,077,871	-
Fund Balance - December 31	\$ 1,138,482	\$ 1,138,482	\$ 1,276,311	\$ 137,829

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-6

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 139,594	\$ 139,594	\$ 157,793	\$ 18,199
Intergovernmental	183	183	72,580	72,397
Investment earnings	29,000	29,000	44,212	15,212
Miscellaneous	-	-	464	464
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	\$ 168,777	\$ 168,777	\$ 275,049	\$ 106,272
Expenditures				
Current				
Conservation of natural resources				
Other	414,356	414,356	496,291	(81,935)
	<hr/>	<hr/>	<hr/>	<hr/>
Net Change in Fund Balance	\$ (245,579)	\$ (245,579)	\$ (221,242)	\$ 24,337
Fund Balance - January 1	2,960,272	2,960,272	2,960,272	-
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Balance - December 31	\$ 2,714,693	\$ 2,714,693	\$ 2,739,030	\$ 24,337
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-7

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2011**

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%
January 1, 2011	-	1,100,130	1,100,130	0.0	7,009,082	15.7

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2011

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 fund:

	Original Budget	Increase (Decrease)	Final Budget
General Fund	\$ 7,059,155	\$ 982	\$ 7,060,137

4. Excess of Expenditures Over Budget

	Expenditures	Budget	Excess
General Fund	\$ 7,074,335	\$ 7,060,137	\$ 14,198
Ditch Special Revenue Funds	496,291	414,356	81,935

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

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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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 493,332	\$ 493,332	\$ 496,237	\$ 2,905
Intergovernmental	39,992	39,992	29,736	(10,256)
Investment earnings	-	-	2,919	2,919
Total Revenues	<u>\$ 533,324</u>	<u>\$ 533,324</u>	<u>\$ 528,892</u>	<u>\$ (4,432)</u>
Expenditures				
Debt service				
Principal	\$ 345,000	\$ 345,000	\$ 345,000	\$ -
Interest	157,928	157,928	157,928	-
Administrative (fiscal) charges	-	-	850	(850)
Total Expenditures	<u>\$ 502,928</u>	<u>\$ 502,928</u>	<u>\$ 503,778</u>	<u>\$ (850)</u>
Net Change in Fund Balance	<u>\$ 30,396</u>	<u>\$ 30,396</u>	<u>\$ 25,114</u>	<u>\$ (5,282)</u>
Fund Balance - January 1	<u>782,010</u>	<u>782,010</u>	<u>782,010</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 812,406</u></u>	<u><u>\$ 812,406</u></u>	<u><u>\$ 807,124</u></u>	<u><u>\$ (5,282)</u></u>

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

AGENCY FUNDS

Family Services Collaborative - to account for the collection and disbursement of funds for the local collaborative.

Social Services Special Projects - to account for the collection and disbursement of funds held on behalf of the Building Healthy Families Children's Trust Fund.

Social Welfare - to account for the collection and disbursement of funds held on behalf of individuals in the Social Welfare program.

State Revenue - to account for the collection and disbursement of the state's share of fees, fines, and mortgage registry and state deed taxes collected by the County.

Taxes and Penalties - to account for the collection of taxes and penalties and their distribution to the various funds and governmental units.

Forfeited Tax Sale - to account for all funds received from the sale of lands forfeited for unpaid taxes and the subsequent disbursement to the various agencies.

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**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, 2011**

	Balance January 1	Additions	Deductions	Balance December 31
<u>FAMILY SERVICES COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 117,204	\$ 639,887	\$ 623,795	\$ 133,296
<u>Liabilities</u>				
Accounts payable	\$ 117,204	\$ 639,887	\$ 623,795	\$ 133,296
 <u>SOCIAL SERVICES SPECIAL PROJECTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 5,057	\$ 1,000	\$ 6,057	\$ -
<u>Liabilities</u>				
Accounts payable	\$ 5,057	\$ 1,000	\$ 6,057	\$ -
 <u>SOCIAL WELFARE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 439,437	\$ 403,517	\$ 35,920
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 439,437	\$ 403,517	\$ 35,920

**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, 2011**

	Balance January 1	Additions	Deductions	Balance December 31
<u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 785,240	\$ 785,240	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 785,240	\$ 785,240	\$ -
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 391,989	\$ 21,352,996	\$ 21,372,774	\$ 372,211
<u>Liabilities</u>				
Due to other governments	\$ 391,989	\$ 21,352,996	\$ 21,372,774	\$ 372,211
 <u>FORFEITED TAX SALE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 227	\$ 77	\$ 150
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 227	\$ 77	\$ 150

**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, 2011**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 514,250	\$ 23,218,787	\$ 23,191,460	\$ 541,577
<u>Liabilities</u>				
Accounts payable	\$ 122,261	\$ 1,080,324	\$ 1,033,369	\$ 169,216
Due to other governments	391,989	22,138,463	22,158,091	372,361
Total Liabilities	\$ 514,250	\$ 23,218,787	\$ 23,191,460	\$ 541,577

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Shared Revenue

State

Highway users tax	\$ 5,111,870
County program aid	377,525
PERA rate reimbursement	27,660
Disparity reduction aid	44,931
Police aid	79,826
Enhanced 911	91,672
Market value credit	545,896
Casino credit	60,623

Total shared revenue **\$ 6,340,003**

Reimbursement for Services

Minnesota Department of Human Services **\$ 278,836**

Payments

Local

Payments in lieu of taxes	\$ 128,059
Local contributions	5,200

Total payments **\$ 133,259**

Grants

State

Minnesota Department/Board of Corrections	\$ 58,627
Health	98,113
Human Services	759,515
Natural Resources	55,971
Public Safety	28,569
Water and Soil Resources	36,944
Pollution Control Agency	55,950
Peace Officer Standards and Training Board	4,545

Total state **\$ 1,098,234**

Federal

Department of Agriculture	\$ 230,365
Commerce	18,229
Transportation	44,609
Energy	35,771
Health and Human Services	1,221,897
Homeland Security	102,179

Total federal **\$ 1,653,050**

Total state and federal grants **\$ 2,751,284**

Total Intergovernmental Revenue **\$ 9,503,382**

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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	\$ 110,242
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	77,633
Direct Rural Business Enterprise Grants - ARRA	10.783	<u>42,490</u>
Total U.S. Department of Agriculture		<u>\$ 230,365</u>
U.S. Department of Commerce		
Passed Through Lyon County Public Safety Interoperable Communications Grant Program	11.555	<u>\$ 18,229</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 36,125
Passed Through Minnesota Department of Public Safety Highway Safety Cluster State and Community Highway Safety	20.600	447
Alcohol-Impaired Driving Countermeasures Incentive Grants I	20.601	447
Passed Through City of Worthington Highway Safety Cluster Occupant Protection Incentive Grants	20.602	1,141
Safety Belt Performance Grants	20.609	8,790
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	<u>1,049</u>
Total U.S. Department of Transportation		<u>\$ 47,999</u>
U.S. Department of Energy		
Passed Through Minnesota Department of Commerce Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA	81.128	<u>\$ 35,771</u>

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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	\$ 5,215
Temporary Assistance for Needy Families (TANF) Cluster		
Temporary Assistance for Needy Families (TANF)	93.558	84,837
Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program - ARRA	93.714	5,304
Child Support Enforcement	93.563	447,905
Child Care and Development Block Grant	93.575	7,801
Stephanie Tubbs Jones Child Welfare Services Program	93.645	2,607
Foster Care Title IV-E	93.658	53,677
Social Services Block Grant	93.667	145,890
Chafee Foster Care Independence Program	93.674	11,600
Children's Health Insurance Program	93.767	50
Medical Assistance Program	93.778	354,506
Block Grants for Community Mental Health Services	93.958	5,916
Passed Through Minnesota Department of Health		
Public Health Emergency Preparedness	93.069	31,371
Immunization Cluster		
Immunization Grants	93.268	900
Immunization - ARRA	93.712	7,100
Temporary Assistance for Needy Families (TANF)	93.558	30,095
Maternal and Child Health Services Block Grant to the States	93.994	18,225
Total U.S. Department of Health and Human Services		\$ 1,212,999
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	\$ 528
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	131,734
Emergency Management Performance Grants	97.042	17,864
Passed Through Lyon County and Murray County		
Interoperable Emergency Communications	97.055	2,110
Homeland Security Grant Program	97.067	5,021
Total U.S. Department of Homeland Security		\$ 157,257
Total Federal Awards		\$ 1,702,620

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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 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, 2011. 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	\$ 1,653,050
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 (CFDA #93.596)	(742)
Medical Assistance Program (CFDA #93.778)	(1,273)
Immunization - ARRA (CFDA #93.712)	(6,883)
Disaster Grants - Public Assistance (CFDA #97.036)	(3,502)
Grants received more than 60 days after year-end, deferred in 2011	
Occupant Protection Incentive Grants (CFDA #20.602)	1,141
Minimum Penalties for Repeat Offenders for Driving While Intoxicated (CFDA #20.608)	1,049
Safety Belt Performance Grants (CFDA #20.609)	1,200
Emergency Management Performance Grants (CFDA #97.042)	17,864
Disaster Grants - Public Assistance (CFDA #97.036)	40,716
Expenditures per Schedule of Expenditures of Federal Awards	\$ 1,702,620

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

5. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Highway Safety Cluster	\$	10,825
Temporary Assistance for Needy Families Cluster		120,236
Immunization Cluster		8,000

6. Subrecipients

During 2011, the County did not pass any federal money to subrecipients.

7. 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, 2011**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unqualified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

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

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **Yes**

The major programs are:

Social Services Block Grant	CFDA #93.667
Medical Assistance Program	CFDA #93.778

The threshold for distinguishing between Types A and B programs was \$300,000.

County qualified as low-risk auditee? **Yes**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

99-1 Segregation of Duties

Criteria: A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion. 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.

Condition: Several of the County's departments that collect fees lack proper segregation of duties. These departments generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts.

Context: Due to the limited number of office personnel within the County, 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 accounting point of view.

Effect: Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Cause: The County does not have the economic resources needed to hire additional qualified accounting staff in order to segregate duties in every department.

Recommendation: We recommend that the County's elected officials and management be aware of the lack of segregation of duties of the accounting functions and, where possible, implement oversight procedures to ensure that the internal control policies and procedures are implemented by staff to the extent possible.

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.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEM ARISING THIS YEAR

11-1 Eligibility Testing

Program: Medical Assistance (MA) (CFDA No. 93.778)

Criteria: OMB Circular A-133 § .300(b) states that the auditee shall maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

Specific criteria are established with respect to eligibility for assistance. During our testing of the intake function related to eligibility, we noted noncompliance with the following requirements:

- Per 8 U.S.C. 1611(a), "Notwithstanding any other provision of law and except as provided in subsection (b) of this section, an alien who is not a qualified alien (as defined in section 1641 of this title) is not eligible for any Federal public benefit (as defined in subsection (c) of this section)."
- Per Minn. Stat. § 256B.056 subd. 10(c), "The commissioner shall verify assets and income for all applicants, and for all recipients upon renewal."

Condition: In some cases, documentation was not available to support that the client was eligible for benefits. Some specific instances noted in our sample of 40 cases tested are as follows:

- Two individuals who were receiving benefits did not have a birth certificate copy on record to document their U.S. citizenship.
- Four cases did not have documentation to support income and one case did not have verification of asset requirements.

Questioned Costs: Not applicable. The County administers the program, but benefits to participants in this program are paid by the State of Minnesota.

Context: The State of Minnesota contracts with the County to perform the “intake function” (meeting with the social services client to determine income and categorical eligibility), while the state maintains the computer systems supporting the eligibility determination process and actually pays the benefits to participants.

Effect: Inappropriate benefits could be approved, causing an inappropriate expenditure of federal awards.

Cause: Program personnel entering case documentation did not ensure all required documents were obtained and/or retained.

Recommendation: We recommend that the County implement review procedures to provide reasonable assurance that all necessary documentation to support an eligibility determination is obtained. In addition, consideration should be given to providing additional training to program personnel.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Lyn Rayburn

Corrective Action Planned:

Periodic management/supervisory reviews of participant case files, case notes and corresponding data entered into MAXIS and MMIS systems will be conducted in order to ensure proper documentation and data entry.

Will research options for education and training that would aid staff in clarifying policies and procedures in order to reduce errors.

Anticipated Completion Date:

Management/supervisory reviews will begin July 1, 2012, and will continue on a periodic basis. Peer case reviews began April 2012 and will continue on a monthly basis.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

10-1 Alternative Dissemination of Bids

Criteria: 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.”

Condition: 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. The County does not publish notice of solicitations or requests in the official newspaper for any solicitation of bids, requests for information, or requests for proposals.

Context: All bids solicited by the County during 2011 were solicited via the County website without the County having simultaneously published notice in the official newspaper of where the solicitations could be found.

Effect: The County is not in compliance with Minn. Stat. § 331A.03 as it relates to publishing requirements.

Cause: The County attempted to minimize publishing costs by using its website as an alternative means of dissemination without simultaneously publishing notice in the official newspaper.

Recommendation: 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’s management is aware of the statutory requirements of Minn. Stat. § 331A.03. Management has reviewed the requirements with staff and will simultaneously publish the description of all solicitations or requests indicating information may be found on the County’s website.

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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, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated July 17, 2012. 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

Management of Redwood County is responsible for establishing and maintaining effective 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.

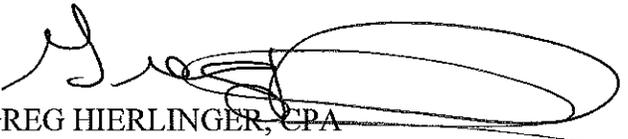
The results of our tests indicate that for the items tested, Redwood County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 10-1.

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.



REBECCA OTTO
STATE AUDITOR



GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 17, 2012

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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, 2011. 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, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and are described in the accompanying Schedule of Findings and Questioned Costs as item 11-1.

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 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. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Questioned Costs as item 11-1. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Redwood County's corrective action plan to the federal award finding identified in our audit is included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's corrective action plan and, accordingly, we express no opinion on it.

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.



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