

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA

YEAR ENDED DECEMBER 31, 2012

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.

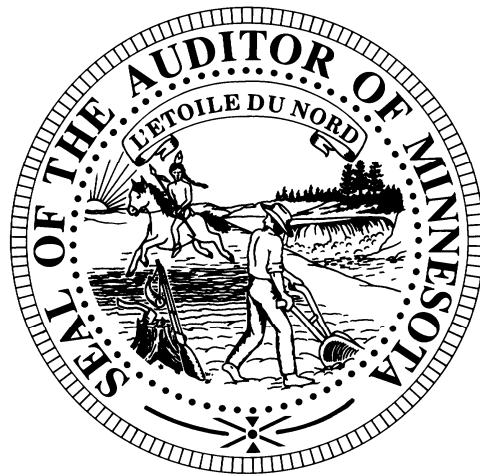
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

Year Ended December 31, 2012



**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
2012

| Office | Name | Term Expires |
|---------------------------------|--|---------------|
| Commissioners | | |
| 1st District | Lon Walling, Chair | January 2017 |
| 2nd District | John Schueller | January 2015 |
| 3rd District | Al Kokesch | January 2015 |
| 4th District | Priscilla Klabunde, Vice Chair | January 2017 |
| 5th District | Sharon Hollatz | January 2017 |
| 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. Gregory McCallum | Indefinite |
| Public Health Nursing | Genie Simon | December 2012 |
| Veterans Service Officer | Martin Caraway | Indefinite |
| Human Services Director | Southwest Health and Human Services | December 2012 |

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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

Report on the Financial Statements

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, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Redwood County as of December 31, 2012, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Redwood County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the

responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.


Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2013, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Redwood County's internal control over financial reporting and compliance.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information 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. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.


REBECCA OTTO
STATE AUDITOR


GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 20, 2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012
(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, 2012. 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 position is \$89,025,998, of which \$66,634,905 is net investment in capital assets and \$4,494,900 is restricted to specific purposes. The \$17,896,193 remaining may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's net position increased by \$3,608,301 for the year ended December 31, 2012. A large part of the increase is attributable to the County's net investment in capital assets.
- The net cost of governmental activities for the current fiscal year was \$7,958,147. The net cost was funded by general revenues totaling \$11,566,448.
- Fund balances of the governmental funds increased by \$527,845. Most of the increase was due to an increase in revenues in the Road and Bridge Special Revenue Fund compared to the budgeted amounts.
- For the year ended December 31, 2012, the assigned and unassigned fund balance of the General Fund was \$7,051,797, or 85.9 percent, of the total General Fund expenditures for the year, an increase of 3.6 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 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 position presents information on all assets and liabilities of the County using the accrual basis of accounting, with the difference being reported as net position. Over time, increases or decreases in net position 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 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 schedule 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 can be found on 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 Position on Exhibit 7.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the County's financial position. The County's assets exceeded liabilities by \$89,025,998 at the close of 2012. The largest portion of the net position (74.8 percent) reflects its net 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 2011 is presented.

| Governmental Activities | | |
|----------------------------------|-----------|-----------|
| Net Position | | |
| (in thousands) | | |
| | 2012 | 2011 |
| Assets | | |
| Current and other assets | \$ 25,553 | \$ 25,222 |
| Capital assets | 69,841 | 67,200 |
| Total Assets | \$ 95,394 | \$ 92,422 |
| Liabilities | | |
| Long-term liabilities | \$ 4,627 | \$ 5,170 |
| Other liabilities | 1,741 | 1,834 |
| Total Liabilities | \$ 6,368 | \$ 7,004 |
| Net Position | | |
| Net investment in capital assets | \$ 66,635 | \$ 63,668 |
| Restricted | 4,495 | 4,194 |
| Unrestricted | 17,896 | 17,556 |
| Total Net Position | \$ 89,026 | \$ 85,418 |

Unrestricted net position--the part of net position 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--is 20.1 percent of net position.

Governmental Activities

The County's activities increased net position by 4.2 percent (\$85,417,697 for 2011 compared to \$89,025,998 for 2012). Key elements in this increase in net position are as follows for 2012, with comparative data for 2011.

| Governmental Activities | | |
|------------------------------------|------------------|------------------|
| Changes in Net Position | | |
| (in thousands) | | |
| | <u>2012</u> | <u>2011</u> |
| Revenues | | |
| Program revenues | | |
| Charges for services | \$ 2,984 | \$ 3,046 |
| Operating grants and contributions | 8,883 | 8,214 |
| Capital grants and contributions | 562 | 36 |
| General revenues | | |
| Property taxes | 10,235 | 9,741 |
| Other | 1,331 | 1,577 |
| Total Revenues | <u>\$ 23,995</u> | <u>\$ 22,614</u> |
| Expenses | | |
| General government | \$ 3,060 | \$ 2,917 |
| Public safety | 3,542 | 2,766 |
| Highways and streets | 5,329 | 5,150 |
| Sanitation | 558 | 536 |
| Human services | 4,939 | 4,870 |
| Health | 1,142 | 1,359 |
| Culture and recreation | 393 | 338 |
| Conservation of natural resources | 1,168 | 1,061 |
| Economic development | 81 | 54 |
| Interest | 175 | 196 |
| Total Expenses | <u>\$ 20,387</u> | <u>\$ 19,247</u> |
| Change in Net Position | \$ 3,608 | \$ 3,367 |
| Net Position - January 1 | <u>85,418</u> | <u>82,051</u> |
| Net Position - December 31 | <u>\$ 89,026</u> | <u>\$ 85,418</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, unrestricted 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 \$22,715,200, an increase of \$527,845 in comparison with the prior year. Of the combined ending fund balances, \$17,040,348 represents unrestricted fund balance, which is available for spending at the County's discretion. The remainder of the fund balance is restricted to indicate that it is not available for new spending because it has already been restricted for various reasons either by state law, grant agreements, or bond covenants or is nonspendable.

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 \$7,051,797. 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 85.9 percent of total General Fund expenditures. During 2012, the ending fund balance increased by \$186,546, primarily due to receiving more in revenues than was expected.

The Road and Bridge Special Revenue Fund had an assigned fund balance of \$2,870,537 at fiscal year-end, representing 37.3 percent of its annual expenditures. The ending fund balance increased \$459,628 during 2012, primarily due to receiving state revenue for 2012 projects that were not completed during the year.

The Human Services Special Revenue Fund had an assigned fund balance of \$2,312,905 at fiscal year-end, representing 46.3 percent of its annual expenditures. The ending fund balance decreased \$168,970 during 2012, primarily due to revenues decreasing from 2011 to 2012.

The Public Health Service Special Revenue Fund had an assigned fund balance of \$1,714,830 at fiscal year-end, representing 141.6 percent of its annual expenditures. The ending balance increased \$44,078 during 2012, primarily due to spending less than was budgeted.

The Solid Waste Special Revenue Fund had an assigned fund balance of \$1,417,505 at fiscal year-end, representing 252.7 percent of its annual expenditures. The ending fund balance increased \$186,300 during 2012, 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 \$1,618,489 at fiscal year-end. The ending fund balance decreased \$218,165 during 2012, primarily due to spending more than the assessments collected.

The Debt Service Fund had restricted fund balance of \$845,552 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 \$23,995,188. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2012.

Table 1
Total County Revenues

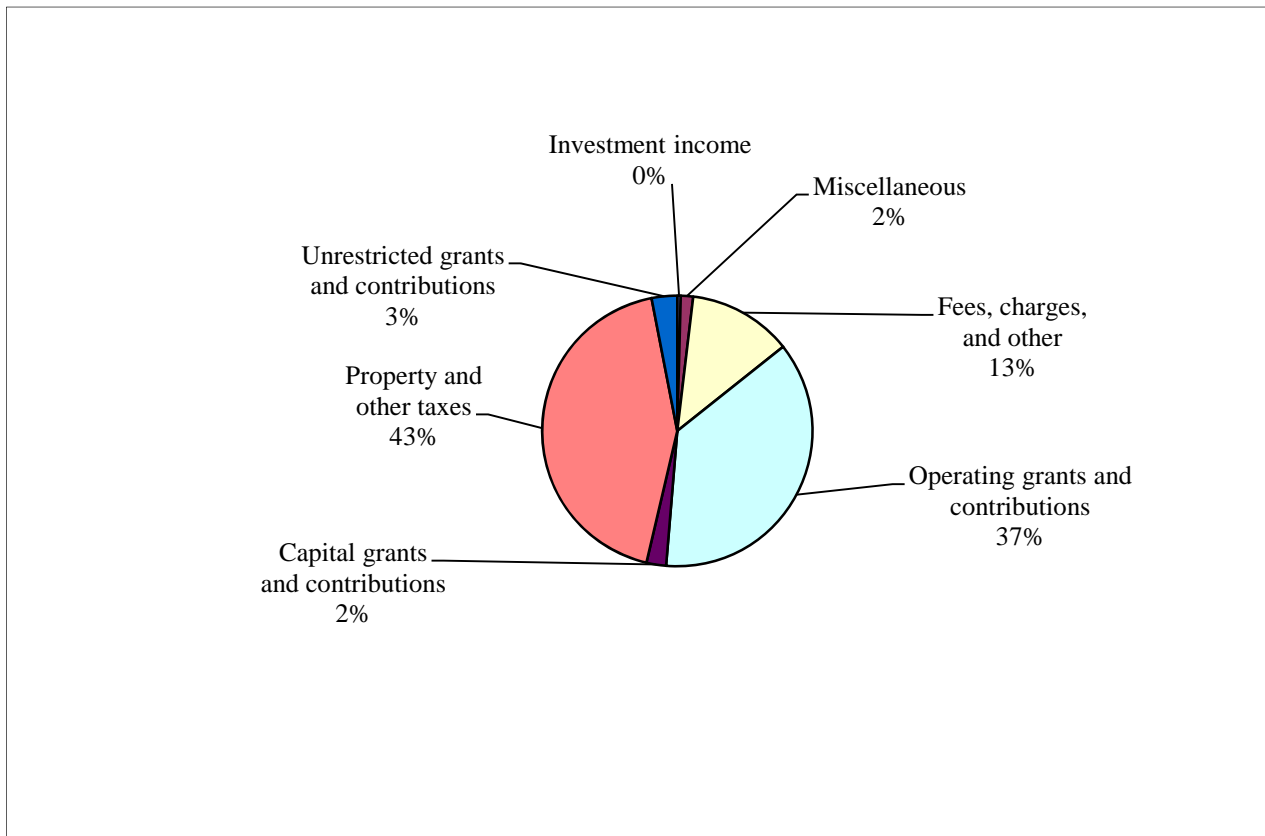
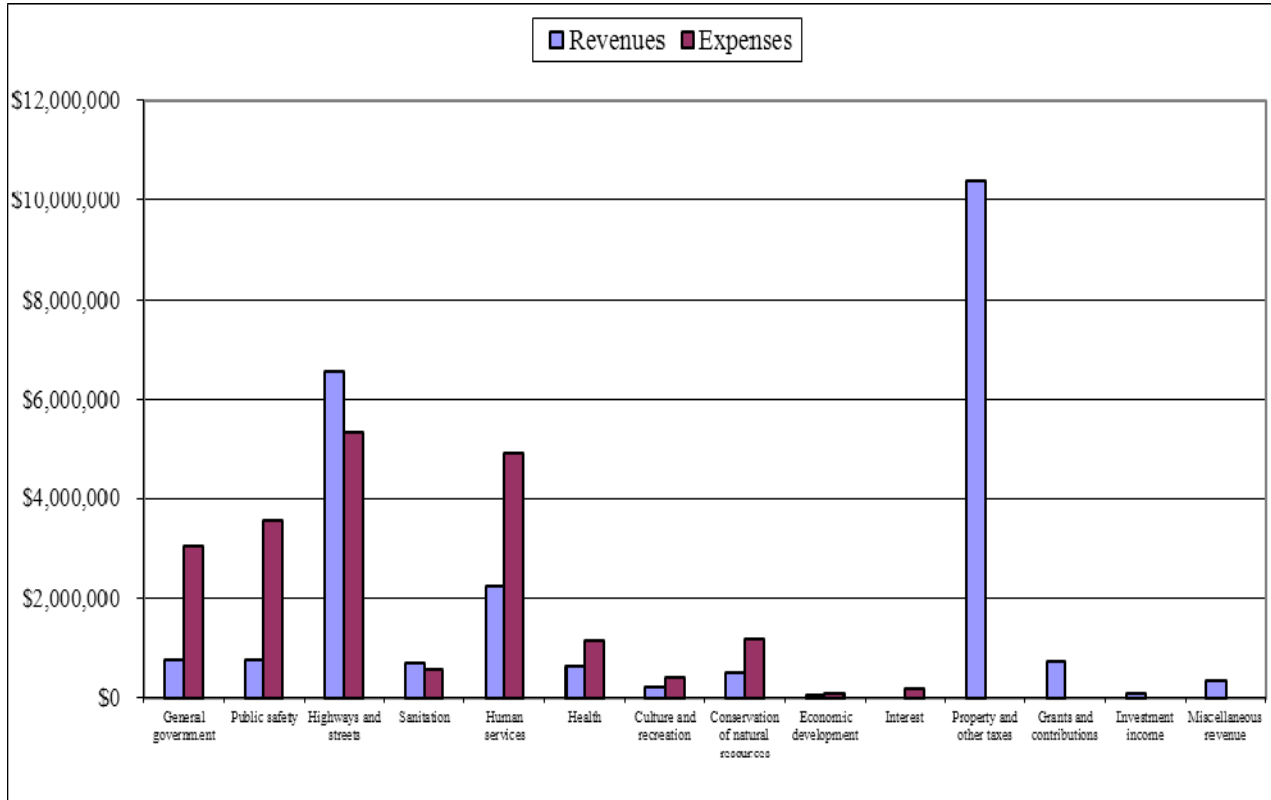


Table 2 presents the cost and revenue of each program, as well as the County’s general revenues.

Total revenues for the County were \$23,995,188, while total expenses were \$20,386,887. This reflects a \$3,608,301 increase in net position for the year ended December 31, 2012.

**Table 2
Program Revenues and Expenses**



The cost of all governmental activities this year was \$20,386,887. However, as shown on the Statement of Activities (Exhibit 2), the amount that taxpayers ultimately financed for these activities through County taxes was only \$10,235,161, because some of the cost was paid by those who directly benefited from the programs (\$2,984,052) or by other governments and organizations that subsidized certain programs with grants and contributions (\$9,444,688). 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 3 presents the cost of each of the County’s five largest program functions, as well as each function’s net cost (total cost, less revenues generated by the activity). The net cost shows the financial burden that was placed on the County’s taxpayers by each of these functions.

**Table 3
Governmental Activities**

| | Total Cost of Services 2012 | Net Cost of Services 2012 |
|-----------------------------------|-----------------------------------|---------------------------------|
| Highways and streets | \$ 5,329,248 | \$ (1,230,352) |
| Human services | 4,938,709 | 2,685,309 |
| Public safety | 3,542,192 | 2,784,795 |
| General government | 3,059,895 | 2,290,784 |
| Conservation of natural resources | 1,168,412 | 669,530 |
| All others | 2,348,431 | 758,081 |
| Totals | \$ 20,386,887 | \$ 7,958,147 |

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 \$846,654 less than the final budget amounts. One of the most significant positive variances of \$590,338 occurred in the E-911 system, where the actual expenditures were less than the amount budgeted. Another significant positive variance of \$162,578 occurred in the Sheriff’s Department, where the actual expenditures were also less than the amount budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County’s capital assets for its governmental activities at December 31, 2012, totaled \$69,840,559 (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 \$2,640,569, or 3.9 percent, from the previous year. The major capital asset events were:

| | |
|--------------------------------------|--------------|
| Construction of highways and streets | \$ 4,013,094 |
| Construction in progress | 791,995 |

Table 4
Capital Assets at Year-End
(Net of Depreciation, in thousands)

| | 2012 | 2011 |
|----------------------------------|------------------|------------------|
| Land | \$ 1,878 | \$ 1,874 |
| Infrastructure | 57,836 | 55,341 |
| Buildings | 5,323 | 5,517 |
| Improvements other than building | 440 | 466 |
| Machinery and equipment | 2,522 | 2,024 |
| Construction in progress | 1,842 | 1,978 |
| Totals | \$ 69,841 | \$ 67,200 |

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, 2012, of \$3,722,870. 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 August 1, 2017); and lease agreements for financing squad cars for the Human Services and Sheriff departments, and copiers for various departments.

Table 5
Outstanding Debt

| | 2012 | 2011 |
|---|---------------------|---------------------|
| General obligation improvement bonds | \$ 3,314,015 | \$ 3,522,107 |
| General obligation certificates of indebtedness | 303,848 | 447,696 |
| Leased squad and human services' cars | 92,391 | 121,594 |
| Leased copiers | 12,616 | 9,382 |
| Totals | \$ 3,722,870 | \$ 4,100,779 |

Minnesota statutes limit the amount of debt a county may levy to 3.00 percent of its total market value. At the end of 2012, the County's outstanding debt was 0.11 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 2013 budget, tax rates, and fees that will be charged for the year.

- The average unemployment rate for Redwood County at the end of 2012 was 5.4 percent and shows an increase from the County's 5.3 percent rate of one year ago. The state unemployment rate was 5.4 percent. The 2010 County population was 16,059, a decrease of 756 from the 2000 census of 16,815.
- At the end of 2012, Redwood County set its 2013 revenue and expenditure budgets.
- The property tax levy for the County remained unchanged for 2013 compared to 2012.

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 POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012**

Assets

Current assets

| | |
|--------------------------------|---------------|
| Cash and pooled investments | \$ 15,783,393 |
| Investments | 6,666,049 |
| Taxes receivable | |
| Prior - net | 122,757 |
| Special assessments receivable | |
| Current - net | 54,549 |
| Prior - net | 41,312 |
| Noncurrent - net | 206,391 |
| Accounts receivable - net | 20,794 |
| Accrued interest receivable | 25,960 |
| Due from other governments | 2,075,868 |
| Loans receivable | 71,278 |
| Inventories | 278,392 |
| Prepaid items | 45,719 |

Noncurrent assets

| | |
|-----------------------|---------|
| Deferred charges | 26,728 |
| Long-term receivables | 134,204 |

Capital assets

| | |
|---|-------------------|
| Non-depreciable | 3,720,428 |
| Depreciable - net of accumulated depreciation | <u>66,120,131</u> |

Total Assets **\$ 95,393,953**

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

***EXHIBIT 1
(Continued)***

**STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012**

Liabilities

Current liabilities

| | | |
|---|----|---------|
| Accounts payable | \$ | 114,983 |
| Salaries payable | | 342,480 |
| Contracts payable | | 177,842 |
| Due to other governments | | 218,895 |
| Accrued interest payable | | 59,282 |
| Deferred revenue - unearned | | 112,018 |
| Compensated absences payable - current | | 186,870 |
| Other postemployment benefits payable - current | | 58,788 |
| General obligation bonds payable - current | | 220,000 |
| General obligation certificates of indebtedness payable - current | | 150,000 |
| Capital leases payable - current | | 53,351 |
| Loans payable - current | | 46,631 |

Noncurrent liabilities

| | | |
|---|--|-----------|
| Compensated absences payable | | 842,974 |
| Other postemployment benefits payable | | 213,473 |
| Capital leases payable | | 51,656 |
| General obligation bonds payable - net | | 3,094,015 |
| General obligation certificates of indebtedness payable - net | | 153,848 |
| Loans payable | | 270,849 |

Total Liabilities

\$ 6,367,955

Net Position

| | | |
|----------------------------------|----|------------|
| Net investment in capital assets | \$ | 66,634,905 |
| Restricted for | | |
| Public safety | | 362,874 |
| Highways and streets | | 2,861,365 |
| Debt service | | 792,133 |
| Other purposes | | 478,528 |
| Unrestricted | | 17,896,193 |

Total Net Position

\$ 89,025,998

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

| | Program Revenues | | | Net (Expense) |
|--|---------------------------------------|--|--|---|
| Expenses | Fees, Charges, Fines, and Other | Operating Grants and Contributions | Capital Grants and Contributions | Revenue and Changes in Net Position |
| Functions/Programs | | | | |
| Primary government | | | | |
| Governmental activities | | | | |
| General government | \$ 3,059,895 | \$ 714,045 | \$ 55,066 | \$ - |
| Public safety | 3,542,192 | 262,592 | 494,805 | - |
| Highways and streets | 5,329,248 | 154,580 | 5,842,699 | 562,321 |
| Sanitation | 557,609 | 645,086 | 55,950 | - |
| Human services | 4,938,709 | 354,814 | 1,898,586 | - |
| Health | 1,141,597 | 344,812 | 280,627 | - |
| Culture and recreation | 393,094 | 92,275 | 130,600 | - |
| Conservation of natural resources | 1,168,412 | 415,848 | 83,034 | - |
| Economic development | 80,840 | - | 41,000 | - |
| Interest | 175,291 | - | - | - |
| Total Governmental Activities | \$ 20,386,887 | \$ 2,984,052 | \$ 8,882,367 | \$ 562,321 |
| General Revenues | | | | |
| Property taxes | | | | \$ 10,235,161 |
| Other taxes | | | | 15,670 |
| Payments in lieu of tax | | | | 133,510 |
| Grants and contributions not restricted to specific programs | | | | 731,602 |
| Investment income | | | | 100,182 |
| Miscellaneous | | | | 350,323 |
| Total general revenues | | | | \$ 11,566,448 |
| Change in net position | | | | \$ 3,608,301 |
| Net Position - Beginning | | | | 85,417,697 |
| Net Position - Ending | | | | \$ 89,025,998 |

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

| | General | Road and Bridge | Human Services |
|---|----------------------|----------------------------|---------------------------|
| <u>Assets</u> | | | |
| Cash and pooled investments | \$ 4,939,448 | \$ 3,645,892 | \$ 2,422,511 |
| Petty cash and change funds | 1,360 | - | - |
| Undistributed cash in agency fund | 114,956 | 22,145 | 41,947 |
| Investments | 4,514,318 | - | - |
| Taxes receivable | | | |
| Delinquent | 63,505 | 16,019 | 30,296 |
| Special assessments receivable | | | |
| Delinquent | - | - | - |
| Noncurrent | 260,940 | - | - |
| Accounts receivable | 4,275 | 764 | - |
| Accrued interest receivable | 19,052 | - | - |
| Due from other funds | 325 | 2,154 | - |
| Due from other governments | 134,038 | 1,891,706 | 21,549 |
| Loans receivable | 205,482 | - | - |
| Inventories | - | 278,392 | - |
| Prepaid items | 19,968 | 25,645 | - |
| | \$ 10,277,667 | \$ 5,882,717 | \$ 2,516,303 |
| <u>Liabilities and Fund Balances</u> | | | |
| Liabilities | | | |
| Accounts payable | \$ 47,880 | \$ 39,421 | \$ - |
| Salaries payable | 163,613 | 55,393 | 77,562 |
| Compensated absences | - | - | 51,516 |
| Contracts payable | 36,488 | 141,354 | - |
| Due to other funds | 1,851 | 325 | - |
| Due to other governments | 64,440 | 5,628 | 44,024 |
| Deferred revenue - unavailable | 408,841 | 1,224,695 | 30,296 |
| Deferred revenue - unearned | 112,018 | - | - |
| | \$ 835,131 | \$ 1,466,816 | \$ 203,398 |

EXHIBIT 3

| Public Health Services | Solid Waste | Ditch | Debt Service | Total |
|-----------------------------------|---------------------|---------------------|---------------------|----------------------|
| \$ 1,810,903 | \$ 1,353,204 | \$ 583,271 | \$ 806,201 | \$ 15,561,430 |
| 200 | 30 | - | - | 1,590 |
| 10,107 | 20,613 | 2,254 | 8,351 | 220,373 |
| - | 100,000 | 2,020,731 | 31,000 | 6,666,049 |
| 7,240 | - | - | 5,697 | 122,757 |
| - | 40,963 | 349 | - | 41,312 |
| - | - | - | - | 260,940 |
| - | 15,755 | - | - | 20,794 |
| - | 537 | 6,205 | 166 | 25,960 |
| - | - | - | - | 2,479 |
| - | - | 28,575 | - | 2,075,868 |
| - | - | - | - | 205,482 |
| - | - | - | - | 278,392 |
| - | 106 | - | - | 45,719 |
| \$ 1,828,450 | \$ 1,531,208 | \$ 2,641,385 | \$ 851,415 | \$ 25,529,145 |
| \$ - | \$ 16,991 | \$ 10,691 | \$ - | \$ 114,983 |
| 33,285 | 9,725 | 2,902 | - | 342,480 |
| 73,095 | - | - | - | 124,611 |
| - | - | - | - | 177,842 |
| - | 231 | 72 | - | 2,479 |
| - | 150 | 104,653 | - | 218,895 |
| 7,240 | 41,500 | 2,202 | 5,863 | 1,720,637 |
| - | - | - | - | 112,018 |
| \$ 113,620 | \$ 68,597 | \$ 120,520 | \$ 5,863 | \$ 2,813,945 |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

| | General | Road and Bridge | Human Services |
|--|----------------|----------------------------|---------------------------|
| <u>Liabilities and Fund Balances</u> | | | |
| (Continued) | | | |
| Fund Balances | | | |
| Nonspendable | | | |
| Inventories | \$ - | \$ 278,392 | \$ - |
| Loans receivable | 205,482 | - | - |
| Prepaid items | 19,968 | 25,645 | - |
| Restricted for | | | |
| Attorney's forfeited property | 13,931 | - | - |
| Broadband grant study | 79,268 | - | - |
| Enhanced 911 | 296,277 | - | - |
| Gun permit fees | 34,402 | - | - |
| Law library | 14,771 | - | - |
| Highway allotments | - | 1,211,327 | - |
| Debt service | - | - | - |
| Ditch maintenance, repair, and other | - | - | - |
| Missing heirs | 1,552 | - | - |
| Recorder's equipment | 175,318 | - | - |
| Recorder's technology fund | 160,321 | - | - |
| Restricted contributions | 920 | 30,000 | - |
| Septic/sewer loans | 56,540 | - | - |
| Sheriff's contingency | 10,241 | - | - |
| Sheriff's DWI assessment | 21,257 | - | - |
| Sheriff's forfeited property | 20,154 | - | - |
| Unspent grant monies | 94 | - | - |
| Victim assistance | 17,059 | - | - |
| VSO grants | 2,298 | - | - |
| 2008A General Obligation Bond | 409,386 | - | - |
| 2008B General Obligation Equipment Certificate | 81,102 | - | - |
| Committed for | | | |
| ARMER contracts | 134,322 | - | - |
| Law enforcement remodel contract | 135,300 | - | - |
| GIS mapping contract | 8,200 | - | - |
| Paging system contract | 67,317 | - | - |
| Pictometry contract | 193,741 | - | - |
| RCEDA revolving loan - 2008 | 62,575 | - | - |
| RCEDA revolving loan - 2011 | 125,010 | - | - |
| Restorative justice | 19,942 | - | - |
| Retiree health insurance | 571 | - | - |
| Sheriff's canteen | 14,720 | - | - |
| WESCAP valley area transit | 8,700 | - | - |

EXHIBIT 3
(Continued)

| <u>Public</u> <u>Health Services</u> | <u>Solid Waste</u> | <u>Ditch</u> | <u>Debt Service</u> | <u>Total</u> |
|---|--------------------|--------------|---------------------|--------------|
| \$ - | \$ - | \$ - | \$ - | \$ 278,392 |
| - | - | - | - | 205,482 |
| - | 106 | - | - | 45,719 |
| - | - | - | - | 13,931 |
| - | - | - | - | 79,268 |
| - | - | - | - | 296,277 |
| - | - | - | - | 34,402 |
| - | - | - | - | 14,771 |
| - | - | - | - | 1,211,327 |
| - | - | - | 845,552 | 845,552 |
| - | - | 1,618,489 | - | 1,618,489 |
| - | - | - | - | 1,552 |
| - | - | - | - | 175,318 |
| - | - | - | - | 160,321 |
| - | - | - | - | 30,920 |
| - | - | - | - | 56,540 |
| - | - | - | - | 10,241 |
| - | - | - | - | 21,257 |
| - | - | - | - | 20,154 |
| - | 45,000 | - | - | 45,094 |
| - | - | - | - | 17,059 |
| - | - | - | - | 2,298 |
| - | - | - | - | 409,386 |
| - | - | - | - | 81,102 |
| - | - | - | - | 134,322 |
| - | - | - | - | 135,300 |
| - | - | - | - | 8,200 |
| - | - | - | - | 67,317 |
| - | - | - | - | 193,741 |
| - | - | - | - | 62,575 |
| - | - | - | - | 125,010 |
| - | - | - | - | 19,942 |
| - | - | - | - | 571 |
| - | - | - | - | 14,720 |
| - | - | - | - | 8,700 |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

| | General | Road and Bridge | Human Services |
|---|----------------------|----------------------------|---------------------------|
| <u>Liabilities and Fund Balances</u> | | | |
| Fund Balances (Continued) | | | |
| Assigned for | | | |
| AS400 computer | 15,947 | - | - |
| Assessor tax court | 40,000 | - | - |
| Compensated absences | 472,434 | 214,975 | 158,539 |
| Comprehensive environment | 3,000 | - | - |
| Courthouse car | 8,367 | - | - |
| Election | 64,868 | - | - |
| Employee flu shots | 2,000 | - | - |
| Flood coverage | 740 | - | - |
| Forfeited tax | 300,000 | - | - |
| Future ditch loans | - | - | - |
| Future law enforcement project | 1,050,000 | - | - |
| Grand jury | 75,000 | - | - |
| Highways and streets | - | 2,636,212 | - |
| Human services | - | - | 2,154,366 |
| Implementation of GASB | 8,298 | - | - |
| L.E. dog fund | 1,529 | - | - |
| Maintenance equipment | 25,000 | - | - |
| Park improvements | 4,171 | - | - |
| 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 - VEBA | 8,375 | - | - |
| VSO van purchase | 28,416 | - | - |
| Workers comp/property casualty insurance | 450,404 | - | - |
| Unassigned | 3,980,358 | - | - |
| Total Fund Balances | \$ 9,442,536 | \$ 4,415,901 | \$ 2,312,905 |
| Total Liabilities and Fund Balances | \$ 10,277,667 | \$ 5,882,717 | \$ 2,516,303 |

EXHIBIT 3
(Continued)

| <u>Public Health Services</u> | <u>Solid Waste</u> | <u>Ditch</u> | <u>Debt Service</u> | <u>Total</u> |
|-----------------------------------|---------------------|---------------------|---------------------|----------------------|
| - | - | - | - | 15,947 |
| - | - | - | - | 40,000 |
| 46,373 | 12,912 | - | - | 905,233 |
| - | - | - | - | 3,000 |
| - | - | - | - | 8,367 |
| - | - | - | - | 64,868 |
| - | - | - | - | 2,000 |
| - | - | - | - | 740 |
| - | - | - | - | 300,000 |
| - | - | 902,376 | - | 902,376 |
| - | - | - | - | 1,050,000 |
| - | - | - | - | 75,000 |
| - | - | - | - | 2,636,212 |
| - | - | - | - | 2,154,366 |
| - | - | - | - | 8,298 |
| - | - | - | - | 1,529 |
| - | - | - | - | 25,000 |
| - | - | - | - | 4,171 |
| - | - | - | - | 519,350 |
| 1,668,457 | - | - | - | 1,668,457 |
| - | - | - | - | 3,000 |
| - | - | - | - | 3,000 |
| - | - | - | - | 390 |
| - | 1,404,593 | - | - | 1,404,593 |
| - | - | - | - | 6,500 |
| - | - | - | - | 8,375 |
| - | - | - | - | 28,416 |
| - | - | - | - | 450,404 |
| - | - | - | - | 3,980,358 |
| <u>\$ 1,714,830</u> | <u>\$ 1,462,611</u> | <u>\$ 2,520,865</u> | <u>\$ 845,552</u> | <u>\$ 22,715,200</u> |
| <u>\$ 1,828,450</u> | <u>\$ 1,531,208</u> | <u>\$ 2,641,385</u> | <u>\$ 851,415</u> | <u>\$ 25,529,145</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 POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012**

| | | | |
|--|----|--------------------|-----------------------------|
| Fund balance - total governmental funds (Exhibit 3) | | \$ | 22,715,200 |
| Amounts reported for governmental activities in the statement of net position are different because: | | | |
| Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. | | | 69,840,559 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. | | | 1,720,637 |
| 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 | \$ | (305,000) | |
| Bonds payable | | (3,335,000) | |
| Leases payable | | (105,007) | |
| Other postemployment benefits | | (272,261) | |
| Compensated absences | | (905,233) | |
| Loans payable | | (317,480) | |
| Deferred debt issuance charges | | 26,728 | |
| Unamortized discount on notes | | 22,137 | |
| Accrued interest payable | | (59,282) | |
| | | <u>(5,250,398)</u> | <u>(5,250,398)</u> |
| Net Position of Governmental Activities (Exhibit 1) | | | <u>\$ 89,025,998</u> |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

| | <u>General</u> | <u>Road and Bridge</u> | <u>Human Services</u> |
|---|---------------------|----------------------------|---------------------------|
| Revenues | | | |
| Taxes | \$ 5,299,835 | \$ 1,316,909 | \$ 2,501,834 |
| Special assessments | 96,960 | - | - |
| Licenses and permits | 48,326 | - | - |
| Intergovernmental | 1,442,731 | 6,532,301 | 1,969,887 |
| Charges for services | 757,709 | 28,699 | 293,151 |
| Gifts and contributions | 12,937 | - | - |
| Investment earnings | 61,893 | 1,667 | - |
| Miscellaneous | 612,627 | 125,881 | 61,663 |
| Total Revenues | \$ 8,333,018 | \$ 8,005,457 | \$ 4,826,535 |
| Expenditures | | | |
| Current | | | |
| General government | \$ 3,102,395 | \$ - | \$ - |
| Public safety | 3,790,796 | - | - |
| Highways and streets | - | 7,228,915 | - |
| Sanitation | - | - | - |
| Human services | - | - | 4,990,129 |
| Health | - | - | - |
| Culture and recreation | 323,936 | - | - |
| Conservation of natural resources | 536,800 | - | - |
| Economic development | 80,840 | - | - |
| Intergovernmental | 94,438 | 457,216 | - |
| Debt service | | | |
| Principal | 256,590 | - | 4,421 |
| Interest | 21,882 | - | 955 |
| Administrative charges | - | - | - |
| Total Expenditures | \$ 8,207,677 | \$ 7,686,131 | \$ 4,995,505 |
| Excess of Revenues Over (Under) Expenditures | \$ 125,341 | \$ 319,326 | \$ (168,970) |
| Other Financing Sources (Uses) | | | |
| Capital lease/installment purchase | \$ 41,416 | \$ - | \$ - |
| Loans issued | 19,789 | - | - |
| Proceeds from the sale of capital assets | - | - | - |
| Total Other Financing Sources (Uses) | \$ 61,205 | \$ - | \$ - |
| Net Change in Fund Balance | \$ 186,546 | \$ 319,326 | \$ (168,970) |
| Fund Balance - January 1 | 9,255,990 | 3,956,273 | 2,481,875 |
| Increase (decrease) in inventories | - | 140,302 | - |
| Fund Balance - December 31 | \$ 9,442,536 | \$ 4,415,901 | \$ 2,312,905 |

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

EXHIBIT 5

| Public Health Services | Solid Waste | Ditch | Debt Service | Total |
|-------------------------------|---------------------|---------------------|---------------------|----------------------|
| \$ 605,183 | \$ - | \$ - | \$ 524,548 | \$ 10,248,309 |
| - | 372,815 | 346,858 | - | 816,633 |
| - | - | - | - | 48,326 |
| 300,741 | 55,955 | 53,185 | 13,646 | 10,368,446 |
| 339,057 | - | - | - | 1,418,616 |
| 19 | - | - | - | 12,956 |
| 4,598 | 4,654 | 22,485 | 3,687 | 98,984 |
| 5,755 | 307,249 | 13,225 | - | 1,126,400 |
| \$ 1,255,353 | \$ 740,673 | \$ 435,753 | \$ 541,881 | \$ 24,138,670 |
| \$ - | \$ - | \$ - | \$ - | \$ 3,102,395 |
| - | - | - | - | 3,790,796 |
| - | - | - | - | 7,228,915 |
| - | 560,873 | - | - | 560,873 |
| - | - | - | - | 4,990,129 |
| 1,209,673 | - | - | - | 1,209,673 |
| - | - | - | - | 323,936 |
| - | - | 653,918 | - | 1,190,718 |
| - | - | - | - | 80,840 |
| - | - | - | - | 551,654 |
| 1,356 | - | - | 355,000 | 617,367 |
| 246 | - | - | 147,603 | 170,686 |
| - | - | - | 850 | 850 |
| \$ 1,211,275 | \$ 560,873 | \$ 653,918 | \$ 503,453 | \$ 23,818,832 |
| \$ 44,078 | \$ 179,800 | \$ (218,165) | \$ 38,428 | \$ 319,838 |
| \$ - | \$ - | \$ - | \$ - | \$ 41,416 |
| - | - | - | - | 19,789 |
| - | 6,500 | - | - | 6,500 |
| \$ - | \$ 6,500 | \$ - | \$ - | \$ 67,705 |
| \$ 44,078 | \$ 186,300 | \$ (218,165) | \$ 38,428 | \$ 387,543 |
| 1,670,752 | 1,276,311 | 2,739,030 | 807,124 | 22,187,355 |
| - | - | - | - | 140,302 |
| \$ 1,714,830 | \$ 1,462,611 | \$ 2,520,865 | \$ 845,552 | \$ 22,715,200 |

**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, 2012**

Net change in fund balance - total governmental funds (Exhibit 5) \$ 387,543

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 | \$ 1,720,637 | |
| Deferred revenue - January 1 | <u>(1,864,184)</u> | (143,547) |

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 | \$ 4,873,911 | |
| Net book value of assets disposed of | (51,476) | |
| Current year depreciation | <u>(2,181,866)</u> | 2,640,569 |

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 | \$ 210,000 | |
| General obligation equipment certificates of indebtedness | 145,000 | |
| Loans payable | 194,982 | |
| Leases payable | <u>67,385</u> | 617,367 |
| New debt issued - net of discounts (see Note 2.C.5. for more information) | | (61,205) |

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 | \$ 4,438 | |
| Change in compensated absences | 31,120 | |
| Change in other postemployment benefits | (93) | |
| Change in inventories | 140,302 | |
| Amortization of discounts and deferred debt issuance charges | <u>(8,193)</u> | <u>167,574</u> |

Change in Net Position of Governmental Activities (Exhibit 2) \$ 3,608,301

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

FIDUCIARY FUNDS

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2012**

| <u>Assets</u> | |
|-------------------------------|--------------------------|
| Cash and pooled investments | <u><u>\$ 445,733</u></u> |
| <u>Liabilities</u> | |
| Accounts payable | \$ 137,082 |
| Due to other governments | <u>308,651</u> |
| Total Liabilities | <u><u>\$ 445,733</u></u> |

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012

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, 2012. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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 position 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 position, 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 position is reported in three parts: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. 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 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 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 levies against benefitted property restricted for construction and maintenance of an agricultural drainage ditch system.
- The Debt Service Fund is used to account for the accumulation of restricted resources used for, and the payment of, principal, interest, and related costs of general obligation bonds.

Additionally, the County reports the following fund type:

Fiduciary funds - 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 Position 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, 2012, 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 2012 were \$4,827.

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). The investment in the pool is measured at the net asset value per share provided by the pool.

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 Position 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 Position 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 Position 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 | \$ 122,757 |
| Delinquent and noncurrent special assessments | 302,252 |
| Interest on investments | 14,920 |
| Receivables that do not provide current financial resources | <u>1,280,708</u> |
| Total Deferred Revenue - Unavailable | <u>\$ 1,720,637</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 position.

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 Position

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

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

8. Classification of Net Position (Continued)

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

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

9. Classification of Fund Balances

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

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

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

9. Classification of Fund Balances (Continued)

Assigned - amounts 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 - 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.

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, 2012, unrestricted fund balance for the General Fund was at or above the minimum fund balance level.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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.

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 | \$ 15,783,393 |
| Investments | 6,666,049 |
| Statement of fiduciary net assets | |
| Cash and pooled investments | <u>445,733</u> |
| Total Cash and Investments | <u>\$ 22,895,175</u> |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

| | |
|--|--------------------------|
| Deposits | |
| Checking | \$ (34,975) |
| Money market savings | 1,810,631 |
| Certificates of deposit | 977,000 |
| Invested in MAGIC Fund | 13,348,603 |
| Invested in money market | 303,132 |
| Invested in Federal Home Loan Bank bonds | 325,153 |
| Invested in Federal Farm Credit Bank | 145,133 |
| Invested in Federal National Mortgage Assn. bonds | 203,878 |
| Invested in Federal Home Loan Mortgage Corporation notes | 1,317,226 |
| Invested in municipal bonds | 205,528 |
| Invested in negotiable certificates of deposit | 3,189,000 |
| Invested in repurchase agreement | 1,103,276 |
| Petty cash and change funds | <u>1,590</u> |
| Total Deposits, Cash on Hand, and Investments | <u>\$ 22,895,175</u> |

a. Deposits

The County is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. The County is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds. Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better 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.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County'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, 2012, 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;
- (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;

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (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, 2012, \$2,109,068 of investments held by brokers was subject to custodial credit risk.

Concentration of Credit Risk

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

**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, 2012, and information relating to potential investment risks:

| Investment Type | Credit Risk | | Concentration Risk Over 5 Percent of Portfolio | Interest Rate Risk Maturity Date | Carrying (Fair) Value |
|---|------------------|------------------|---|---|-----------------------------|
| | Credit Rating | Rating Agency | | | |
| U.S. government agency securities | | | | | |
| Federal Home Loan Bank Bonds | AA+ | S&P | | 08/15/2022 | \$ 300,000 |
| Federal Home Loan Bank Bonds | AA+ | S&P | | 06/10/2015 | 25,153 |
| Total Federal Home Loan Bank Bonds | | | <5% | | \$ 325,153 |
| Federal Farm Credit Bank | AA+ | S&P | | 09/12/2016 | \$ 39,965 |
| Federal Farm Credit Bank | AA+ | S&P | | 11/13/2017 | 65,260 |
| Federal Farm Credit Bank | AA+ | S&P | | 11/13/2017 | 39,908 |
| Total Federal Farm Credit Bank | | | <5% | | \$ 145,133 |
| Federal National Mortgage Association Bond | AA+ | S&P | | 09/20/2016 | \$ 25,211 |
| Federal National Mortgage Association Bond | AA+ | S&P | | 04/01/2017 | 25,741 |
| Federal National Mortgage Association Bond | AA+ | S&P | | 05/30/2017 | 20,067 |
| Federal National Mortgage Association Bond | AA+ | S&P | | 10/01/2040 | 40,311 |
| Federal National Mortgage Association Bond | AA+ | S&P | | 01/01/2041 | 44,003 |
| Federal National Mortgage Association Bond | AA+ | S&P | | 09/25/2041 | 48,545 |
| Total Federal National Mortgage Association Bonds | | | <5% | | \$ 203,878 |
| Federal Home Loan Mortgage Corporation Notes | AA+ | S&P | | 07/17/2019 | \$ 1,000,000 |
| Federal Home Loan Mortgage Corporation Notes | AA+ | S&P | | 03/28/2022 | 200,000 |
| Federal Home Loan Mortgage Corporation Notes | AA+ | S&P | | 11/30/2017 | 50,385 |
| Federal Home Loan Mortgage Corporation Notes | AA+ | S&P | | 03/15/2039 | 45,799 |
| Federal Home Loan Mortgage Corporation Notes | AA+ | S&P | | 10/01/2041 | 21,042 |
| Total Federal Home Loan Mortgage Corporation Notes | | | >5% | | \$ 1,317,226 |
| Total U.S. government agency securities | | | | | \$ 1,991,390 |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

| Investment Type | Credit Risk | | Concentration Risk Over 5 Percent of Portfolio | Interest Rate Risk Maturity Date | Carrying (Fair) Value |
|--|------------------|------------------|---|---|-----------------------------|
| | Credit Rating | Rating Agency | | | |
| Irving Texas Wtrwks & Swr Revenue Bonds | AA | S&P | <5% | 08/15/2013 | \$ 51,461 |
| Minnetonka MN - G.O. Bond | AA+ | S&P | <5% | 02/01/2015 | \$ 49,372 |
| Beaufort County South Carolina G.O. Bond | AA | S&P | <5% | 03/01/2015 | \$ 54,843 |
| Maine State Municipal Bond Bank | AA+ | S&P | <5% | 11/01/2017 | \$ 49,852 |
| Investment pools/mutual funds | | | | | |
| MAGIC Fund | N/R | N/A | >5% | N/A | \$ 13,348,603 |
| Money Market GOTXX | N/R | N/A | <5% | N/A | 303,132 |
| Total investment pools/mutual funds | | | | | \$ 13,651,735 |
| Negotiable certificates of deposit | N/A | N/A | - | Varies | \$ 3,189,000 |
| Repurchase agreement | N/A | N/A | >5% | N/A | \$ 1,103,276 |
| Total investments | | | | | \$ 20,140,929 |
| Checking | | | | | (34,975) |
| Savings | | | | | 1,810,631 |
| Certificates of deposit | | | | | 977,000 |
| Petty cash and change funds | | | | | 1,590 |
| Total Cash and Investments | | | | | \$ 22,895,175 |

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, 2012, was as follows:

| | Beginning Balance | Increase | Decrease | Ending Balance |
|--|----------------------|---------------------|-------------------|----------------------|
| Capital assets not depreciated | | | | |
| Land | \$ 462,065 | \$ - | \$ - | \$ 462,065 |
| Right-of-way | 1,411,849 | 4,148 | - | 1,415,997 |
| Construction in progress | 1,978,111 | 791,995 | 927,740 | 1,842,366 |
| Total capital assets not depreciated | <u>\$ 3,852,025</u> | <u>\$ 796,143</u> | <u>\$ 927,740</u> | <u>\$ 3,720,428</u> |
| Capital assets depreciated | | | | |
| Buildings | \$ 9,227,205 | \$ - | \$ - | \$ 9,227,205 |
| Improvements other than building | 542,842 | - | - | 542,842 |
| Machinery and equipment | 7,463,420 | 992,414 | 306,186 | 8,149,648 |
| Infrastructure | 74,580,197 | 4,013,094 | - | 78,593,291 |
| Total capital assets depreciated | <u>\$ 91,813,664</u> | <u>\$ 5,005,508</u> | <u>\$ 306,186</u> | <u>\$ 96,512,986</u> |
| Less: accumulated depreciation for | | | | |
| Buildings | \$ 3,709,698 | \$ 194,757 | \$ - | \$ 3,904,455 |
| Improvements other than building | 76,730 | 26,036 | - | 102,766 |
| Machinery and equipment | 5,439,682 | 468,675 | 280,131 | 5,628,226 |
| Infrastructure | 19,239,589 | 1,517,819 | - | 20,757,408 |
| Total accumulated depreciation | <u>\$ 28,465,699</u> | <u>\$ 2,207,287</u> | <u>\$ 280,131</u> | <u>\$ 30,392,855</u> |
| Total capital assets depreciated, net | <u>\$ 63,347,965</u> | <u>\$ 2,798,221</u> | <u>\$ 26,055</u> | <u>\$ 66,120,131</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 67,199,990</u> | <u>\$ 3,594,364</u> | <u>\$ 953,795</u> | <u>\$ 69,840,559</u> |

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

| | |
|---|---------------------|
| General government | \$ 297,094 |
| Public safety | 236,205 |
| Highways and streets, including depreciation of infrastructure assets | 1,620,725 |
| Sanitation | 25,494 |
| Human services | 8,056 |
| Health | 5,292 |
| Culture and recreation | 9,676 |
| Conservation of natural resources | 4,745 |
| Total Depreciation Expense - Governmental Activities | <u>\$ 2,207,287</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, 2012, is as follows:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|-----------------------------------|---------------------|-----------------|
| General | Road and Bridge | \$ 325 |
| Road and Bridge | General | \$ 1,851 |
| | Ditch | 72 |
| | Solid Waste | 231 |
| Total due to Road and Bridge Fund | | \$ 2,154 |
| Total Due To/From Other Funds | | <u>\$ 2,479</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, 2012.

**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, 2012. The projects and commitments include the following:

| | Spent-to-Date | Remaining Commitment |
|-------------------------|---------------|-------------------------|
| ARMER | \$ 461,459 | \$ 134,322 |
| GIS mapping | - | 8,200 |
| Law enforcement project | 47,150 | 135,300 |
| Paging system | - | 67,317 |
| Pictometry | 6,763 | 193,741 |

The remaining commitment for highway projects are state-funded and, therefore, not obligations of the County at December 31, 2012.

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, 2012 |
|---|-------------------|-----------------------|-------------------------|-----------------------------|--|
| Clean water loans | | | | | |
| Cottonwood River Restoration/ Continuation | 2017 | \$ 21,245 | 2.00 | \$ 434,219 | \$ 126,462 |
| Redwood River Watershed Project Continuation | 2017 | 6,326 | 2.00 | 127,675 | 59,916 |
| Cottonwood River Watershed Phosphorus TMDL | - | - | - | 100,000 | 87,309 |
| Middle Minnesota Continuation | - | - | - | 210,000 | 43,793 |
| Total | | | | | \$ 317,480 |

**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, 2012</u> |
|---|-----------------------|---------------------------|--------------------------|------------------------------|--|
| 2008 General Obligation Improvement Bond, Series 2008A | 2024 | \$170,000 - \$355,000 | 3.00 - 4.50 | <u>\$ 3,920,000</u> | \$ 3,335,000 |
| Less: unamortized discount | | | | | <u>(20,985)</u> |
| Improvement bond | | | | | <u>\$ 3,314,015</u> |
| 2008 General Obligation Certificate of Indebtedness, Series 2008B | 2014 | \$130,000 - \$155,000 | 2.50 - 3.40 | <u>\$ 720,000</u> | \$ 305,000 |
| Less: unamortized discount | | | | | <u>(1,152)</u> |
| Certificate of indebtedness | | | | | <u>\$ 303,848</u> |
| Total General Obligation Bonds, Certificates, and Notes, Net | | | | | <u>\$ 3,617,863</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, 2012, were as follows:

| <u>Year Ending December 31</u> | <u>General Obligation Bonds, Certificates of Indebtedness, and Capital Notes</u> | |
|------------------------------------|--|-------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2013 | \$ 370,000 | \$ 136,577 |
| 2014 | 380,000 | 124,642 |
| 2015 | 235,000 | 114,413 |
| 2016 | 245,000 | 106,007 |
| 2017 | 255,000 | 96,753 |
| 2018 - 2022 | 1,465,000 | 314,358 |
| 2023 - 2024 | 690,000 | 31,333 |
| Total | <u>\$ 3,640,000</u> | <u>\$ 924,083</u> |

| <u>Year Ending December 31</u> | <u>Loans Payable</u> | |
|------------------------------------|----------------------|-----------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2013 | \$ 46,631 | \$ 3,471 |
| 2014 | 40,403 | 2,594 |
| 2015 | 41,215 | 1,782 |
| 2016 | 42,044 | 953 |
| 2017 | 16,085 | 223 |
| Total | <u>\$ 186,378</u> | <u>\$ 9,023</u> |

Clean water loans of \$87,309 for the Cottonwood River Watershed Phosphorus TMDL and \$43,793 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 Departments 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.

The Human Services' leased car and Public Health's leased copier liability will be transferred to Southwest Health and Human Services as of January 1, 2013.

These capital leases consist of the following at December 31, 2012:

| <u>Lease</u> | <u>Final Maturity</u> | <u>Installments</u> | <u>Payment Amount</u> | <u>Original Issue Amount</u> | <u>Outstanding Balance December 31, 2012</u> |
|-----------------------|---------------------------|---------------------|---------------------------|--------------------------------------|--|
| 2009 Crown Victoria | 2013 | Monthly | \$ 1,025 | \$ 27,000 | \$ 4,727 |
| 2009 Crown Victoria | 2013 | Monthly | 1,025 | 27,000 | 4,707 |
| 2010 Crown Victoria | 2014 | Monthly | 667 | 28,928 | 8,400 |
| 2011 Crown Victoria | 2015 | Monthly | 648 | 25,601 | 14,608 |
| 2011 Crown Victoria | 2015 | Monthly | 663 | 25,496 | 14,722 |
| 2011 Crown Victoria | 2015 | Monthly | 648 | 25,786 | 14,716 |
| 2012 Crown Victoria | 2016 | Monthly | 659 | 33,723 | 23,850 |
| HS 2010 Chevy Impala | 2014 | Monthly | 448 | 17,498 | 6,661 |
| Admn. Sharp copier | 2014 | Monthly | 155 | 7,286 | 2,032 |
| Sheriff Sharp copier | 2014 | Monthly | 104 | 5,067 | 1,371 |
| PHS Sharp copier | 2014 | Monthly | 134 | 6,535 | 2,007 |
| License Center copier | 2017 | Monthly | 93 | 3,000 | 2,796 |
| Attorney copier | 2017 | Monthly | 163 | 4,693 | 4,410 |
| Total Capital Leases | | | | | <u>\$ 105,007</u> |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities

4. Capital Leases (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2012, were as follows:

| Year Ending December 31 | Governmental Activities |
|---|----------------------------|
| 2013 | \$ 62,829 |
| 2014 | 38,003 |
| 2015 | 12,936 |
| 2016 | 7,022 |
| 2017 | 1,883 |
| Total minimum lease payments | \$ 122,673 |
| Less: amount representing interest | (17,666) |
| Present Value of Minimum Lease Payments | \$ 105,007 |

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--|----------------------|------------|------------|-------------------|------------------------|
| Bonds and notes payable | | | | | |
| General obligation certificates | \$ 450,000 | \$ - | \$ 145,000 | \$ 305,000 | \$ 150,000 |
| General obligation bond | 3,545,000 | - | 210,000 | 3,335,000 | 220,000 |
| Less: deferred amounts for issuance discounts | (25,197) | - | (3,060) | (22,137) | - |
| Total bonds and notes payable | \$ 3,969,803 | \$ - | \$ 351,940 | \$ 3,617,863 | \$ 370,000 |
| Clean water loans payable | 492,673 | 19,789 | 194,982 | 317,480 | 46,631 |
| Compensated absences | 936,353 | 93,491 | - | 1,029,844 | 186,870 |
| Other postemployment benefits | 272,168 | 115,655 | 115,562 | 272,261 | 58,788 |
| Capital leases | 130,976 | 41,416 | 67,385 | 105,007 | 53,351 |
| Governmental Activities Long-Term Liabilities | \$ 5,801,973 | \$ 270,351 | \$ 729,869 | \$ 5,342,455 | \$ 715,640 |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Plan Description

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

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

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.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Plan Description (Continued)

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

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, 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.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Plan Description (Continued)

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 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 2012:

| | |
|---------------------------------------|--------|
| 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 |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Plan Description (Continued)

The County's contributions for the years ending December 31, 2012, 2011, and 2010, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|---------------------------------------|-------------|-------------|-------------|
| General Employees Retirement Fund | \$ 412,743 | \$ 417,070 | \$ 414,365 |
| Public Employees Police and Fire Fund | 96,171 | 93,466 | 88,913 |
| Public Employees Correctional Fund | 38,987 | 38,250 | 36,607 |

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.

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.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

B. Defined Contribution Plan (Continued)

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2012, were:

| | <u>Employee</u> | <u>Employer</u> |
|-------------------------------|-----------------|-----------------|
| Contribution amount | \$ 5,599 | \$ 5,599 |
| 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 1 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 County Board took action to change the health insurance benefits for elected officials. For those elected officials taking office on or before January 4, 2011, the following provisions apply as above, except the County will not exceed the actual cost of the County's \$500 deductible plan for the "Retiree and Spouse, both 65 years of age or over" rate. For those elected officials taking office after January 4, 2011, the following provisions apply. 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, 2012, the County has 11 eligible participants (5 elected officials and 6 employees). The County finances the plan on a pay-as-you-go basis. During 2012, the County expended \$70,722 for these benefits.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation

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

| | | |
|---|----|-----------|
| ARC | \$ | 107,490 |
| Interest on net OPEB obligation | | 8,165 |
| Adjustment to ARC | | (13,684) |
| | | _____ |
| Annual OPEB cost (expense) | \$ | 101,971 |
| Contributions made | | (101,878) |
| | | _____ |
| Increase in net OPEB obligation | \$ | 93 |
| Net OPEB Obligation - Beginning of Year | | 272,168 |
| | | _____ |
| Net OPEB Obligation - End of Year | \$ | 272,261 |

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, 2010, 2011, and 2012, were as follows:

| <u>Fiscal Year Ended</u> | <u>Annual OPEB Cost</u> | <u>Annual Employer Contribution</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|--------------------------|-----------------------------|---|---|--------------------------------|
| December 31, 2010 | \$ 170,993 | \$ 68,707 | 40.2% | \$ 376,825 |
| December 31, 2011 | 102,208 | 206,865 | 202.4 | 272,168 |
| December 31, 2012 | 101,971 | 101,878 | 99.9 | 272,261 |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Funded Status and Funding Progress

As of January 1, 2011, the most recent actuarial valuation date, the County had no assets to fund the plan. 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 Methods and Assumptions

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.

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 4 years. Both rates included a

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

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, 2012, was 25 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, or 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.

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 \$460,000 per claim in 2012 and \$470,000 per claim in 2013. 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.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

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

B. Contingent Liabilities

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

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

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.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

B. Contingent Liabilities

Lincoln-Pipestone Rural Water System (Continued)

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 services 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. A payment of \$1,608,498 was made to SWHHS to join the joint powers in February 2013.

In July 2013, the County Board issued \$45,415,000 General Obligation Capital Improvement Bonds, Series 2013A.

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.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Lincoln-Pipestone Rural Water System (Continued)

Bonds were issued by Lincoln, Nobles, and Yellow Medicine Counties to finance the construction of the Rural Water System. Costs assessed to municipalities and special assessments levied against benefited properties pay approximately 85 percent of the amount necessary to retire principal and interest on the bonds. The remainder of the funds necessary to retire the outstanding bonds and interest will be provided by appropriations from the Lincoln-Pipestone Rural Water System. Outstanding obligations at December 31, 2011 (the latest information available), 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.

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, 2011 (the latest information available), were \$13,555,000. The Water System's net assets increased by \$563,153 in 2011.

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Southwest Minnesota Regional Radio Board

The Southwest Minnesota Regional Radio Joint Powers Board was established April 22, 2008, between Lyon County, the City of Marshall, the City of Worthington, and 12 other counties (including Redwood County) under authority of Minn. Stat. §§ 471.59 and 403.39. The purpose of the agreement is to formulate a regional radio board to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER).

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

Minnesota River Basin

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

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

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

During 2012, Redwood County made no contributions to the Joint Powers Board.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Minnesota River Basin (Continued)

Complete financial statements for the Minnesota River Basin Joint Powers Board can be obtained from its administrative office at 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.

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, 2011 (the latest information available):

| | |
|--------------------------|--------------|
| Total assets | \$ 2,127,562 |
| Total liabilities | 564,148 |
| Total net assets | 1,563,414 |
| Total revenues | 3,744,479 |
| Total expenditures | 4,103,387 |
| Net change in net assets | (358,908) |

The Board reported no long-term obligations at December 31, 2011.

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

REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA

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

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. As of January 1, 2013, the Family Service Collaborative account will be transferred to SWHHS for oversight.

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 2012.

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, 2012**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---------------------------------|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 5,297,321 | \$ 5,297,321 | \$ 5,299,835 | \$ 2,514 |
| Special assessments | 60,514 | 60,514 | 96,960 | 36,446 |
| Licenses and permits | 41,805 | 41,805 | 48,326 | 6,521 |
| Intergovernmental | 1,275,649 | 1,312,964 | 1,442,731 | 129,767 |
| Charges for services | 637,594 | 637,594 | 757,709 | 120,115 |
| Gifts and contributions | 6,000 | 6,000 | 12,937 | 6,937 |
| Investment earnings | 43,825 | 43,825 | 61,893 | 18,068 |
| Miscellaneous | 354,126 | 375,361 | 612,627 | 237,266 |
| Total Revenues | \$ 7,716,834 | \$ 7,775,384 | \$ 8,333,018 | \$ 557,634 |
| Expenditures | | | | |
| Current | | | | |
| General government | | | | |
| Commissioners | \$ 244,505 | \$ 244,505 | \$ 230,357 | \$ 14,148 |
| Courts | - | - | 1,929 | (1,929) |
| Law library | 19,000 | 19,000 | 6,750 | 12,250 |
| County administration | 324,175 | 324,175 | 261,347 | 62,828 |
| Administrator | 247,071 | 247,071 | 225,736 | 21,335 |
| Auditor-Treasurer | 346,393 | 346,393 | 345,148 | 1,245 |
| License center | 143,337 | 143,337 | 145,954 | (2,617) |
| Assessor | 319,953 | 319,953 | 285,266 | 34,687 |
| Elections | 57,400 | 57,400 | 53,076 | 4,324 |
| Computer | 255,593 | 255,593 | 231,511 | 24,082 |
| Attorney | 324,841 | 324,841 | 330,747 | (5,906) |
| Recorder | 257,985 | 257,985 | 235,558 | 22,427 |
| Buildings and plant | 729,831 | 729,831 | 579,894 | 149,937 |
| Veterans service officer | 161,999 | 161,999 | 151,363 | 10,636 |
| Other general government | 9,675 | 9,675 | 17,759 | (8,084) |
| Total general government | \$ 3,441,758 | \$ 3,441,758 | \$ 3,102,395 | \$ 339,363 |
| Public safety | | | | |
| Sheriff | \$ 2,227,647 | \$ 2,368,147 | \$ 2,205,569 | \$ 162,578 |
| Coroner | 15,000 | 15,000 | 11,664 | 3,336 |
| E-911 system | 1,671,058 | 1,671,058 | 1,080,720 | 590,338 |
| Probation and parole | 280,182 | 280,182 | 259,076 | 21,106 |
| Restorative justice | 66,306 | 66,306 | 61,797 | 4,509 |
| Sentence to Serve | 43,972 | 43,972 | 42,794 | 1,178 |
| Emergency management | 67,229 | 88,640 | 87,363 | 1,277 |
| Other public safety | 18,100 | 18,100 | 41,813 | (23,713) |
| Total public safety | \$ 4,389,494 | \$ 4,551,405 | \$ 3,790,796 | \$ 760,609 |

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

| | <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 | \$ 3,000 | \$ 3,000 | \$ 2,127 | \$ 873 |
| Parks | 122,530 | 157,799 | 142,946 | 14,853 |
| Minnesota trails | 93,286 | 93,286 | 130,600 | (37,314) |
| Other | 48,500 | 48,500 | 48,263 | 237 |
| Total culture and recreation | \$ 267,316 | \$ 302,585 | \$ 323,936 | \$ (21,351) |
| Conservation of natural resources | | | | |
| Extension | \$ 97,915 | \$ 97,915 | \$ 86,547 | \$ 11,368 |
| Agricultural inspection | 212,613 | 212,613 | 264,697 | (52,084) |
| Water quality loan program | 30,000 | 30,000 | 19,789 | 10,211 |
| Other | 168,779 | 168,779 | 165,767 | 3,012 |
| Total conservation of natural resources | \$ 509,307 | \$ 509,307 | \$ 536,800 | \$ (27,493) |
| Economic development | | | | |
| Other | \$ 87,603 | \$ 87,603 | \$ 80,840 | \$ 6,763 |
| Intergovernmental | | | | |
| Library | \$ 94,438 | \$ 94,438 | \$ 94,438 | \$ - |
| Debt service | | | | |
| Principal | \$ 60,814 | \$ 60,814 | \$ 256,590 | \$ (195,776) |
| Interest | \$ 6,421 | \$ 6,421 | \$ 21,882 | \$ (15,461) |
| Total Expenditures | \$ 8,857,151 | \$ 9,054,331 | \$ 8,207,677 | \$ 846,654 |
| Excess of Revenues Over (Under) | | | | |
| Expenditures | \$ (1,140,317) | \$ (1,278,947) | \$ 125,341 | \$ 1,404,288 |
| Other Financing Sources (Uses) | | | | |
| Capital lease/installment purchase | \$ - | \$ - | \$ 41,416 | \$ 41,416 |
| Loans issued | 30,000 | 30,000 | 19,789 | (10,211) |
| Total Other Financing Sources (Uses) | \$ 30,000 | \$ 30,000 | \$ 61,205 | \$ 31,205 |
| Net Change in Fund Balance | \$ (1,110,317) | \$ (1,248,947) | \$ 186,546 | \$ 1,435,493 |
| Fund Balance - January 1 | 9,255,990 | 9,255,990 | 9,255,990 | - |
| Fund Balance - December 31 | \$ 8,145,673 | \$ 8,007,043 | \$ 9,442,536 | \$ 1,435,493 |

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, 2012**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 1,315,549 | \$ 1,315,549 | \$ 1,316,909 | \$ 1,360 |
| Intergovernmental | 4,615,451 | 4,615,451 | 6,532,301 | 1,916,850 |
| Charges for services | 20,000 | 20,000 | 28,699 | 8,699 |
| Investment earnings | 2,000 | 2,000 | 1,667 | (333) |
| Miscellaneous | 50,000 | 50,000 | 125,881 | 75,881 |
| Total Revenues | \$ 6,003,000 | \$ 6,003,000 | \$ 8,005,457 | \$ 2,002,457 |
| Expenditures | | | | |
| Current | | | | |
| Highways and streets | | | | |
| Administration | \$ 480,104 | \$ 480,104 | \$ 406,529 | \$ 73,575 |
| Maintenance | 1,782,399 | 1,782,399 | 1,613,204 | 169,195 |
| Construction | 3,172,535 | 3,172,535 | 4,516,499 | (1,343,964) |
| Equipment and maintenance shops | 731,369 | 731,369 | 692,683 | 38,686 |
| Total highways and streets | \$ 6,166,407 | \$ 6,166,407 | \$ 7,228,915 | \$ (1,062,508) |
| Intergovernmental | | | | |
| Highways and streets | 375,000 | 375,000 | 457,216 | (82,216) |
| Total Expenditures | \$ 6,541,407 | \$ 6,541,407 | \$ 7,686,131 | \$ (1,144,724) |
| Net Change in Fund Balance | \$ (538,407) | \$ (538,407) | \$ 319,326 | \$ 857,733 |
| Fund Balance - January 1 | 3,956,273 | 3,956,273 | 3,956,273 | - |
| Increase (decrease) in inventories | - | - | 140,302 | 140,302 |
| Fund Balance - December 31 | \$ 3,417,866 | \$ 3,417,866 | \$ 4,415,901 | \$ 998,035 |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|-----------------------------------|----------------------------|----------------------------|----------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 2,499,198 | \$ 2,499,198 | \$ 2,501,834 | \$ 2,636 |
| Intergovernmental | 2,329,612 | 2,329,612 | 1,969,887 | (359,725) |
| Charges for services | 364,450 | 364,450 | 293,151 | (71,299) |
| Miscellaneous | <u>75,200</u> | <u>75,200</u> | <u>61,663</u> | <u>(13,537)</u> |
| Total Revenues | <u>\$ 5,268,460</u> | <u>\$ 5,268,460</u> | <u>\$ 4,826,535</u> | <u>\$ (441,925)</u> |
| Expenditures | | | | |
| Current | | | | |
| Human services | | | | |
| Income maintenance | \$ 1,648,892 | \$ 1,648,892 | \$ 1,526,689 | \$ 122,203 |
| Social services | <u>3,619,568</u> | <u>3,619,568</u> | <u>3,463,440</u> | <u>156,128</u> |
| Total human services | <u>\$ 5,268,460</u> | <u>\$ 5,268,460</u> | <u>\$ 4,990,129</u> | <u>\$ 278,331</u> |
| Debt service | | | | |
| Principal | - | - | 4,421 | (4,421) |
| Interest | <u>-</u> | <u>-</u> | <u>955</u> | <u>(955)</u> |
| Total Expenditures | <u>\$ 5,268,460</u> | <u>\$ 5,268,460</u> | <u>\$ 4,995,505</u> | <u>\$ 272,955</u> |
| Net Change in Fund Balance | \$ - | \$ - | \$ (168,970) | \$ (168,970) |
| Fund Balance - January 1 | <u>2,481,875</u> | <u>2,481,875</u> | <u>2,481,875</u> | <u>-</u> |
| Fund Balance - December 31 | <u>\$ 2,481,875</u> | <u>\$ 2,481,875</u> | <u>\$ 2,312,905</u> | <u>\$ (168,970)</u> |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
PUBLIC HEALTH SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|-----------------------------------|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 604,612 | \$ 604,612 | \$ 605,183 | \$ 571 |
| Intergovernmental | 294,137 | 294,137 | 300,741 | 6,604 |
| Charges for services | 556,898 | 556,898 | 339,057 | (217,841) |
| Gifts and contributions | 200 | 200 | 19 | (181) |
| Investment earnings | 12,000 | 12,000 | 4,598 | (7,402) |
| Miscellaneous | 3,700 | 3,700 | 5,755 | 2,055 |
| Total Revenues | \$ 1,471,547 | \$ 1,471,547 | \$ 1,255,353 | \$ (216,194) |
| Expenditures | | | | |
| Current | | | | |
| Health | | | | |
| Nursing service | \$ 1,445,752 | \$ 1,445,752 | \$ 1,209,673 | \$ 236,079 |
| Debt service | | | | |
| Principal | - | - | 1,356 | (1,356) |
| Interest | - | - | 246 | (246) |
| Total Expenditures | \$ 1,445,752 | \$ 1,445,752 | \$ 1,211,275 | \$ 234,477 |
| Net Change in Fund Balance | \$ 25,795 | \$ 25,795 | \$ 44,078 | \$ 18,283 |
| Fund Balance - January 1 | 1,670,752 | 1,670,752 | 1,670,752 | - |
| Fund Balance - December 31 | \$ 1,696,547 | \$ 1,696,547 | \$ 1,714,830 | \$ 18,283 |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-5

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Special assessments | \$ 350,000 | \$ 350,000 | \$ 372,815 | \$ 22,815 |
| Licenses and permits | 1,000 | 1,000 | - | (1,000) |
| Intergovernmental | 55,950 | 55,950 | 55,955 | 5 |
| Investment earnings | 6,500 | 6,500 | 4,654 | (1,846) |
| Miscellaneous | 266,000 | 266,000 | 307,249 | 41,249 |
| Total Revenues | \$ 679,450 | \$ 679,450 | \$ 740,673 | \$ 61,223 |
| Expenditures | | | | |
| Current | | | | |
| Sanitation | | | | |
| Solid waste | \$ 308,270 | \$ 308,270 | \$ 270,307 | \$ 37,963 |
| Recycling | 357,100 | 357,100 | 283,137 | 73,963 |
| Hazardous waste | 10,000 | 10,000 | 7,429 | 2,571 |
| Total Expenditures | \$ 675,370 | \$ 675,370 | \$ 560,873 | \$ 114,497 |
| Excess of Revenues Over (Under) Expenditures | \$ 4,080 | \$ 4,080 | \$ 179,800 | \$ 175,720 |
| Other Financing Sources (Uses) | | | | |
| Proceeds from the sale of capital assets | - | - | 6,500 | 6,500 |
| Net Change in Fund Balance | \$ 4,080 | \$ 4,080 | \$ 186,300 | \$ 182,220 |
| Fund Balance - January 1 | 1,276,311 | 1,276,311 | 1,276,311 | - |
| Fund Balance - December 31 | \$ 1,280,391 | \$ 1,280,391 | \$ 1,462,611 | \$ 182,220 |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-6

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|--|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Special assessments | \$ 305,799 | \$ 305,799 | \$ 346,858 | \$ 41,059 |
| Intergovernmental | 183 | 183 | 53,185 | 53,002 |
| Investment earnings | 34,000 | 34,000 | 22,485 | (11,515) |
| Miscellaneous | - | - | 13,225 | 13,225 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Revenues | \$ 339,982 | \$ 339,982 | \$ 435,753 | \$ 95,771 |
| Expenditures | | | | |
| Current | | | | |
| Conservation of natural resources | | | | |
| Other | 421,682 | 421,682 | 653,918 | (232,236) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net Change in Fund Balance | \$ (81,700) | \$ (81,700) | \$ (218,165) | \$ (136,465) |
| Fund Balance - January 1 | 2,739,030 | 2,739,030 | 2,739,030 | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Fund Balance - December 31 | \$ 2,657,330 | \$ 2,657,330 | \$ 2,520,865 | \$ (136,465) |
| | <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, 2012**

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded Actuarial Accrued Liability (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|--|---|--|--------------------------|---------------------------|--|
| January 1, 2008 | \$ - | \$ 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, 2012

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

Revenue budgets were amended in the following funds:

| | Original Budget | Increase (Decrease) | Final Budget |
|--------------|--------------------|------------------------|-----------------|
| General Fund | \$ 7,716,834 | \$ 58,550 | \$ 7,775,384 |

Expenditure budgets were amended in the following funds:

| | Original Budget | Increase (Decrease) | Final Budget |
|--------------|--------------------|------------------------|-----------------|
| General Fund | \$ 8,857,151 | \$ 197,180 | \$ 9,054,331 |

4. Excess of Expenditures Over Budget

| | Expenditures | Budget | Excess |
|--------------------------------------|--------------|--------------|--------------|
| Road and Bridge Special Revenue Fund | \$ 7,686,131 | \$ 6,541,407 | \$ 1,144,724 |
| Ditch Special Revenue Fund | 653,918 | 421,682 | 232,236 |

REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA

5. Other Postemployment Benefits Funding Status

Redwood County implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in 2008. Since the County has not irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets to pay the accrued liability for postemployment benefits is zero. Currently, two actuarial valuations are available. As the information becomes available, future reports will provide additional trend analysis to meet the three valuation funding status requirement. See Note 3.C. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT B-1

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|-----------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 524,294 | \$ 524,294 | \$ 524,548 | \$ 254 |
| Intergovernmental | 13,598 | 13,598 | 13,646 | 48 |
| Investment earnings | - | - | 3,687 | 3,687 |
| Total Revenues | <u>\$ 537,892</u> | <u>\$ 537,892</u> | <u>\$ 541,881</u> | <u>\$ 3,989</u> |
| Expenditures | | | | |
| Debt service | | | | |
| Principal | \$ 355,000 | \$ 355,000 | \$ 355,000 | \$ - |
| Interest | 147,603 | 147,603 | 147,603 | - |
| Administrative (fiscal) charges | 850 | 850 | 850 | - |
| Total Expenditures | <u>\$ 503,453</u> | <u>\$ 503,453</u> | <u>\$ 503,453</u> | <u>\$ -</u> |
| Net Change in Fund Balance | <u>\$ 34,439</u> | <u>\$ 34,439</u> | <u>\$ 38,428</u> | <u>\$ 3,989</u> |
| Fund Balance - January 1 | <u>807,124</u> | <u>807,124</u> | <u>807,124</u> | <u>-</u> |
| Fund Balance - December 31 | <u><u>\$ 841,563</u></u> | <u><u>\$ 841,563</u></u> | <u><u>\$ 845,552</u></u> | <u><u>\$ 3,989</u></u> |

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FIDUCIARY FUNDS

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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 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, 2012**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|---|------------------------------|---------------------|---------------------|--------------------------------|
| <u>FAMILY SERVICES COLLABORATIVE</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | <u>\$ 133,296</u> | <u>\$ 300,372</u> | <u>\$ 306,538</u> | <u>\$ 127,130</u> |
| <u>Liabilities</u> | | | | |
| Accounts payable | <u>\$ 133,296</u> | <u>\$ 300,372</u> | <u>\$ 306,538</u> | <u>\$ 127,130</u> |
| <u>SOCIAL WELFARE</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | <u>\$ 35,920</u> | <u>\$ 340,437</u> | <u>\$ 366,405</u> | <u>\$ 9,952</u> |
| <u>Liabilities</u> | | | | |
| Accounts payable | <u>\$ 35,920</u> | <u>\$ 340,437</u> | <u>\$ 366,405</u> | <u>\$ 9,952</u> |
| <u>STATE REVENUE</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | <u>\$ -</u> | <u>\$ 1,133,417</u> | <u>\$ 1,133,417</u> | <u>\$ -</u> |
| <u>Liabilities</u> | | | | |
| Due to other governments | <u>\$ -</u> | <u>\$ 1,133,417</u> | <u>\$ 1,133,417</u> | <u>\$ -</u> |

**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, 2012**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|--|------------------------------|----------------------|----------------------|--------------------------------|
| <u>TAXES AND PENALTIES</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 372,211 | \$ 22,679,688 | \$ 22,743,418 | \$ 308,481 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 372,211 | \$ 22,679,688 | \$ 22,743,418 | \$ 308,481 |
| <u>FORFEITED TAX SALE</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 150 | \$ 93 | \$ 73 | \$ 170 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 150 | \$ 93 | \$ 73 | \$ 170 |
| <u>TOTAL ALL AGENCY FUNDS</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 541,577 | \$ 24,454,007 | \$ 24,549,851 | \$ 445,733 |
| <u>Liabilities</u> | | | | |
| Accounts payable | \$ 169,216 | \$ 640,809 | \$ 672,943 | \$ 137,082 |
| Due to other governments | 372,361 | 23,813,198 | 23,876,908 | 308,651 |
| Total Liabilities | \$ 541,577 | \$ 24,454,007 | \$ 24,549,851 | \$ 445,733 |

OTHER SCHEDULES

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Shared Revenue

State

| | | |
|-------------------------|----|-----------|
| Highway users tax | \$ | 5,378,312 |
| County program aid | | 377,525 |
| PERA rate reimbursement | | 27,660 |
| Disparity reduction aid | | 44,858 |
| Police aid | | 77,670 |
| Enhanced 911 | | 89,005 |
| Market value credit | | 224,170 |
| Casino credit | | 57,389 |

Total shared revenue **\$ 6,276,589**

Reimbursement for Services

| | | |
|--|----|---------|
| Minnesota Department of Human Services | \$ | 218,912 |
| Highways and streets | | 688,944 |

Total reimbursement for services **\$ 907,856**

Payments

Local

| | | |
|---------------------------|----|---------|
| Payments in lieu of taxes | \$ | 133,510 |
| Local contributions | | 41,000 |

Total payments **\$ 174,510**

Grants

State

| | | |
|--|----|---------|
| Minnesota Department/Board of | | |
| Corrections | \$ | 58,927 |
| Health | | 97,207 |
| Human Services | | 640,060 |
| Natural Resources | | 130,600 |
| Public Safety | | 24,285 |
| Transportation | | 285,380 |
| Veterans Affairs | | 2,298 |
| Water and Soil Resources | | 46,415 |
| Pollution Control Agency | | 55,950 |
| Peace Officer Standards and Training Board | | 3,985 |

Total state **\$ 1,345,107**

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

***EXHIBIT D-1
(Continued)***

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Grants (Continued)

Federal

| | |
|------------------------------|----------------|
| Department of Agriculture | \$ 152,074 |
| Commerce | 40,064 |
| Transportation | 126,943 |
| Health and Human Services | 1,110,872 |
| Homeland Security | <u>234,431</u> |

Total federal **\$ 1,664,384**

Total state and federal grants **\$ 3,009,491**

Total Intergovernmental Revenue **\$ 10,368,446**

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

| 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 | \$ 99,371 |
| Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | 10.561 | <u>71,336</u> |
| Total U.S. Department of Agriculture | | \$ <u>170,707</u> |
| U.S. Department of Commerce | | |
| Passed Through Southwest Minnesota Regional Radio Board Public Safety Interoperable Communications Grant Program | 11.555 | \$ <u>40,064</u> |
| U.S. Department of Transportation | | |
| Passed Through Minnesota Department of Transportation Highway Planning and Construction | 20.205 | \$ 112,375 |
| Passed Through Minnesota Department of Public Safety Highway Safety Cluster State and Community Highway Safety | 20.600 | 3,000 |
| Passed Through City of Worthington and Nobles County Highway Safety Cluster Safety Belt Performance Grants | 20.609 | <u>8,178</u> |
| Total U.S. Department of Transportation | | \$ <u>123,553</u> |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

| 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 | \$ 7,716 |
| Temporary Assistance for Needy Families (TANF) Cluster | | |
| Temporary Assistance for Needy Families (TANF) | 93.558 | 96,114 |
| (Total Temporary Assistance for Needy Families 93.558 \$125,964) | | |
| Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program - ARRA | 93.714 | 1,142 |
| Child Support Enforcement | 93.563 | 469,618 |
| Refugee and Entrant Assistance - State-Administered Programs | 93.566 | 260 |
| Child Care and Development Block Grant | 93.575 | 5,374 |
| Stephanie Tubbs Jones Child Welfare Services Program | 93.645 | 3,812 |
| Foster Care - Title IV-E | 93.658 | 66,302 |
| Social Services Block Grant | 93.667 | 145,717 |
| Chafee Foster Care Independence Program | 93.674 | 11,784 |
| Children's Health Insurance Program | 93.767 | 22 |
| Medical Assistance Program | 93.778 | 370,315 |
| Passed Through Minnesota Department of Health | | |
| Public Health Emergency Preparedness | 93.069 | 14,164 |
| Universal Newborn Hearing Screening | 93.251 | 1,025 |
| Centers for Disease Control and Prevention - Investigations and Technical Assistance | 93.283 | 75 |
| Temporary Assistance for Needy Families (TANF) Cluster | | |
| Temporary Assistance for Needy Families (TANF) | 93.558 | 29,850 |
| (Total Temporary Assistance for Needy Families 93.558 \$125,964) | | |
| Maternal and Child Health Services Block Grant to the States | 93.994 | <u>17,889</u> |
| Total U.S. Department of Health and Human Services | | \$ 1,241,179 |
| U.S. Department of Homeland Security | | |
| Passed Through Minnesota Department of Public Safety | | |
| Disaster Grants - Public Assistance (Presidentially Declared Disasters) | 97.036 | \$ 30,380 |
| Emergency Management Performance Grants | 97.042 | 18,180 |
| Passed Through Southwest Minnesota Regional Radio Board and Murray County | | |
| Homeland Security Grant Program | 97.067 | <u>194,706</u> |
| Total U.S. Department of Homeland Security | | \$ 243,266 |
| Total Federal Awards | | \$ 1,818,769 |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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 basic financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Redwood County under programs of the federal government for the year ended December 31, 2012. 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 or changes in net position 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. Clusters

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

| | |
|---|-----------|
| Highway Safety Cluster | \$ 11,178 |
| Temporary Assistance for Needy Families Cluster | 127,106 |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

5. Reconciliation to Schedule of Intergovernmental Revenue

| | |
|---|--------------|
| Federal grant revenue per Schedule of Intergovernmental Revenue | \$ 1,664,384 |
| 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 (Presidentially Declared Disasters) (CFDA #97.036) | (40,716) |
| Grants received more than 60 days after year-end, deferred in 2012 | |
| Homeland Security Grant (CFDA #97.067) | 49,235 |
| Emergency Management Performance Grants (CFDA #97.042) | 18,180 |
| Grants money expended by Redwood County in 2012 where the receivable was assumed by Southwest Health and Human Services. See also Note 4.C. to the basic financial statements | |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (CFDA #10.561) | 18,633 |
| Promoting Safe and Stable Families (CFDA #93.556) | 5,239 |
| Temporary Assistance for Needy Families (TANF) (CFDA #93.558) | 14,245 |
| Child Support Enforcement (CFDA #93.563) | 36,043 |
| Refugee and Entrant Assistance - State-Administered Programs (CFDA #93.566) | 94 |
| Child Care and Development Block Grant (CFDA #93.575) | 741 |
| Stephanie Tubbs Jones Child Welfare Services Program (CFDA #93.645) | 1,335 |
| Foster Care - Title IV-E (CFDA #93.658) | 2,700 |
| Chafee Foster Care Independence Program (CFDA #93.674) | 2,004 |
| Medical Assistance Program (CFDA #93.778) | 67,906 |
| Expenditures per Schedule of Expenditures of Federal Awards | \$ 1,818,769 |

6. Subrecipients

The County did not pass any federal awards through to subrecipients during the year ended December 31, 2012.

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, 2012**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

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

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: **Unmodified**

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:

| | |
|---|--------------|
| Temporary Assistance for Needy Families (TANF) Cluster | |
| Temporary Assistance for Needy Families | CFDA #93.558 |
| Emergency Contingency Fund for TANF State Program - State Program - ARRA | CFDA #93.714 |
| Medical Assistance Program | CFDA #93.778 |

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM RESOLVED

Segregation of Duties (99-1)

Several of the County's departments that collected fees lacked proper segregation of duties. These departments generally had one staff person responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts.

Resolution

Redwood County departments implemented additional review and monitoring procedures to improve segregation of duties and increase controls over billing, collecting, recording, and depositing receipts. The County also reduced departmental checking accounts by having more departments remit receipts and the respective funds to the Auditor/Treasurer's Department for recording into the general ledger and depositing with the bank.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEM NOT RESOLVED

11-1 Eligibility Testing

Program: U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778)

Pass-Through Agency: Minnesota Department of Human Services

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.

Condition: The state maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. While periodic supervisory case reviews are performed to provide reasonable assurance of compliance with grant requirements for eligibility, not all documentation was available to support participant eligibility. In other circumstances, information was input into MAXIS incorrectly. The following instances were noted in our sample of 40 cases tested:

- Two individuals who were receiving benefits did not have a birth certificate copy on record or naturalization papers to document their U.S. citizenship.
- Four cases did not have documentation to support income or the amounts reported for income were not accurately updated in MAXIS to amounts provided with the application.
- Two cases did not have verification of asset requirements. In one case, the most recent bank statement was not received and other documentation from the bank was not requested. The second case did not include the titles for two vehicles, where one vehicle was excluded for the employed spouse in the household.
- One case did not include documentation to support the medical spend-down required for the amount of income greater than the federal poverty guideline standard.

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: The improper input of information into MAXIS and lack of follow-up of issues increases the risk that a client will receive benefits when they are not eligible.

Cause: Program personnel entering case information into MAXIS did not ensure all required information was input into MAXIS correctly or that all required information was obtained and/or retained.

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

Corrective Action Plan:

On July 5, 2012, Redwood County entered into a management agreement with Southwest Health and Human Services for the management of the Human Services Department, and as of January 1, 2013, Redwood County Human Services joined Southwest Health and Human Services.

Names of Contact Persons Responsible for Corrective Action:

Kathy Herding and Lyn Rayburn

Corrective Action Planned:

Southwest Health and Human Services will implement monthly case reviews of Medical Assistance cases at a minimum of 2 cases per worker, per month. In addition, Southwest Health and Human Services will target areas of verification, documentations, and form completion. Southwest Health and Human Services will provide training to workers to ensure all workers are appropriately trained.

Anticipated Completion Date:

The Medical Assistance case review process began as of June 2012.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Alternate Dissemination of Bids (10-1)

Redwood County solicited bids for a highway project via the County website, but did not provide simultaneous notice of such in the official newspaper. The County did not publish notice of solicitations or requests in the official newspaper for any solicitation of bids, requests for information, or requests for proposals.

Resolution

Redwood County began publishing solicitation of bids, requests for information, or requests for proposals in the official newspaper in compliance with Minn. Stat. § 331A.03.



REBECCA OTTO
STATE AUDITOR

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

Independent Auditor's Report

Board of County Commissioners
Redwood County

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Redwood County, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 20, 2013.

Internal Control Over Financial Reporting

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

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. 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 the attention of those charged with governance.

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

Compliance and Other Matters

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

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, 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 audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the County has no tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that Redwood County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly had we performed additional procedures, other matters might have come to our attention regarding the County's noncompliance with the above referenced provisions.

Purpose of This Report

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



REBECCA OTTO
STATE AUDITOR



GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 20, 2013

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

Independent Auditor's Report

Board of County Commissioners
Redwood County

Report on Compliance for Each Major Federal Program

We have audited Redwood County's compliance 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 the County's major federal programs for the year ended December 31, 2012. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Redwood County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Redwood County complied, in all material respects, with the types of compliance 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, 2012.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 11-1. Our opinion on each major federal program is not modified with respect to this matter.

Redwood County's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. Redwood County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Redwood County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program 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.

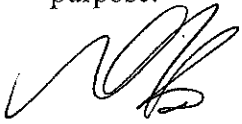
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 11-1, that we consider to be a significant deficiency.

Redwood County's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. Redwood County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



REBECCA OTTO
STATE AUDITOR



GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 20, 2013

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