

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA

YEAR ENDED DECEMBER 31, 2007

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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This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: www.auditor.state.mn.us.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

Year Ended December 31, 2007



**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
2007

Office	Name	Term Expires
Commissioners		
1st District	Brian Kletscher*	January 2009
2nd District	John Schueller	January 2011
3rd District	Al Kokesch	January 2011
4th District	Bruce Tolzmann	January 2011
5th District	Eugene Short**	January 2009
County Officers		
Elected		
Attorney	Michelle Dietrich	August 2008
Auditor-Treasurer	Larry L. Bunting	February 2008
District Court Judge	David W. Peterson	January 2011
Recorder	Joyce Anderson	January 2011
Sheriff	Richard Morris	January 2011
Appointed		
Assessor	Kathy Hillmer	Indefinite
Coordinator	Vicki Knobloch	Indefinite
Environmental Services Director	Jon Mitchell	Indefinite
Highway Engineer	Ernest Fiala	Indefinite
License Center Director	Deb Tholkes	Indefinite
Maintenance Supervisor	Loren Gewerth	Indefinite
Medical Examiner	Dr. Dennis P. Nelson	Indefinite
Public Health Nursing	Genie Simon	Indefinite
Veterans Service Officer/Emergency Management Director	Harold Read	October 2007
Human Services Director	Patrick Bruflat	Indefinite

*Chair 2006

**Chair 2007

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Redwood County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Redwood County as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Redwood County as of December 31, 2007, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the budgetary comparison schedules are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of Redwood County. The statement and schedule listed as supplementary information in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of Redwood County. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2008, on our consideration of Redwood County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 14, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007
(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, 2007. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

Governmental activities' total net assets are \$72,823,687, of which \$56,696,246 is invested in capital assets and \$3,486,908 is restricted to specific purposes. The \$12,640,533 remaining may be used to meet the County's ongoing obligations to citizens and creditors.

The County's net assets increased by \$2,736,696 for the year ended December 31, 2007. A large part of the increase is attributable to the County's investing in capital assets, net of accumulated depreciation, funded by capital grants and contributions.

The net cost of governmental activities for the current fiscal year was \$7,570,446. The net cost was funded by general revenues totaling \$10,307,142.

Fund balances of the governmental funds increased by \$277,509. Most of the increase was due to collecting more revenues than expenditures in the General Fund.

For the year ended December 31, 2007, the unreserved fund balance of the General Fund was \$3,382,654, or 53.5 percent, of the total General Fund expenditures for the year, a decrease of 21.1 percent.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

Fund level financial statements provide detailed information about the funds--not the County as a whole. Some funds are required to be established by state law and by bond covenants. However, the County Board establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

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

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

The County adopts an annual appropriated budget for its General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, Public Health Services Special Revenue Fund, Solid Waste Special Revenue Fund, Building Special Revenue Fund,

and Ditch Special Revenue Fund. A budgetary comparison statement has been provided as required supplementary information for each of these funds to demonstrate compliance with this budget.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. The County's assets exceeded liabilities by \$72,823,687 at the close of 2007. The largest portion of the net assets (78 percent) reflects its investment in capital assets (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 2006 is presented.

Governmental Activities		
Net Assets		
(in thousands)		
	2007	2006
Assets		
Current and other assets	\$ 18,480	\$ 16,774
Capital assets	56,856	55,467
Total Assets	\$ 75,336	\$ 72,241
Liabilities		
Long-term liabilities	\$ 1,272	\$ 1,268
Other liabilities	1,240	886
Total Liabilities	\$ 2,512	\$ 2,154
Net Assets		
Invested in capital assets, net of related debt	\$ 56,696	\$ 55,232
Restricted	3,487	1,902
Unrestricted	12,641	12,953
Total Net Assets	\$ 72,824	\$ 70,087

Unrestricted net assets--the part of net assets that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements--are 17.4 percent of the net assets.

Governmental Activities

The County's activities increased net assets by 3.9 percent (\$70,086,991 for 2006 compared to \$72,823,687 for 2007). Key elements in this increase in net assets are as follows for 2007, with comparative data for 2006.

Governmental Activities		
Changes in Net Assets		
(in thousands)		
	<u>2007</u>	<u>2006</u>
Revenues		
Program revenues		
Charges for services	\$ 2,772	\$ 2,279
Operating grants and contributions	5,460	6,067
Capital grants and contributions	2,402	2,268
General revenues		
Property taxes	7,693	7,151
Other	2,614	2,548
Total Revenues	<u>\$ 20,941</u>	<u>\$ 20,313</u>
Expenses		
General government	\$ 2,672	\$ 2,582
Public safety	2,668	2,361
Highways	4,828	4,140
Sanitation	595	451
Human services	4,943	4,442
Health	1,215	1,117
Culture and recreation	366	277
Conservation of natural resources	858	799
Economic development	34	141
Interest	25	12
Total Expenses	<u>\$ 18,204</u>	<u>\$ 16,322</u>
Increase in Net Assets	<u>\$ 2,737</u>	<u>\$ 3,991</u>
Net Assets - January 1	<u>70,087</u>	<u>66,096</u>
Net Assets - December 31	<u>\$ 72,824</u>	<u>\$ 70,087</u>

Total revenues for the County were \$20,941,323, while total expenses were \$18,204,627. This reflects a \$2,736,696 increase in net assets for the year ended December 31, 2007.

The cost of all governmental activities this year was \$18,204,627. However, as shown on the Statement of Activities (Exhibit 2), the amount that our taxpayers ultimately financed for these activities through County taxes was only \$7,692,729, because some of the cost was paid by those who directly benefited from the programs (\$2,772,299) or by other governments and

organizations that subsidized certain programs with grants and contributions (\$7,861,882). 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.

The following table 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.

Governmental Activities		
(in thousands)		
	Total Cost of Services 2007	Net Cost of Services 2007
Human services	\$ 4,943	\$ 2,605
Highways and streets	4,828	(394)
General government	2,672	2,045
Public safety	2,668	2,202
Health	1,215	470
All others	1,878	642
Totals	\$ 18,204	\$ 7,570

FINANCIAL ANALYSIS OF THE GOVERNMENT’S FUNDS

Governmental Funds

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

At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$14,011,460, an increase of \$277,509 in comparison with the prior year. Of the combined ending fund balances, \$11,515,413 represents unreserved fund balance which is available for spending at the County’s discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for various reasons either by state law or grant agreements.

The General Fund is the main operating fund for the County. At the end of the current fiscal year, it had an unreserved fund balance of \$3,382,654. As a measure of the General Fund’s liquidity, it may be useful to compare unreserved fund balance to total expenditures. The General Fund’s unreserved fund balance represents 53.5 percent of total General Fund

expenditures. During 2007, the ending fund balance decreased by \$950,846. This decrease was the result of the County transferring \$1,339,136 from the General Fund to the Building Special Revenue Fund.

The Road and Bridge Special Revenue Fund had an unreserved fund balance of \$1,086,692 at fiscal year-end, representing 18.9 percent of its annual expenditures. The ending fund balance decreased \$50,392 during 2007, primarily due to expenditures being greater than revenues.

The Human Services Special Revenue Fund had an unreserved fund balance of \$2,093,923 at fiscal year-end, representing 42.5 percent of its annual expenditures. The ending fund balance increased \$21,886 during 2007, primarily due to expenditures being under budget.

The Public Health Service Special Revenue Fund had an unreserved fund balance of \$1,221,024 at fiscal year-end, representing 102.1 percent of its annual expenditures. The ending balance increased \$197,226 during 2007, primarily due to expenditures being under budget.

The Solid Waste Special Revenue Fund had an unreserved fund balance of \$777,636 at fiscal year-end, representing 138.9 percent of its annual expenditures. The ending fund balance increased \$130,639 during 2007, primarily due to revenues being over budget.

The Building Special Revenue Fund's ending fund balance increased by \$742,022 during 2007, primarily due to a transfer of \$1,339,136 from the General Fund.

The Ditch Special Revenue Fund had an unreserved fund balance of \$2,953,484 at fiscal year-end. The ending fund balance increased \$186,974 during 2007, primarily due to the revenues being over budget.

General Fund Budgetary Highlights

Over the course of the year, the County Board does not generally revise the General Fund budget.

The actual charges to appropriations (expenditures) were \$330,576 above the final budget amounts. The most significant positive variance (\$33,683) occurred in Elections, where the costs to operate were less than anticipated, resulting in a 96 percent reduction in expected expenditures. Reasons for other significant variances of actual expenditures from final budget include lower than anticipated buildings and plant costs and overall departmental cuts.

On the other hand, resources available for appropriation were also \$710,526 above the final budgeted amount. Greater than expected collections for taxes, miscellaneous items, investment earnings, and intergovernmental revenues accounted for most of the increase.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's capital assets for its governmental activities at December 31, 2007, totaled \$56,856,246 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased \$1,389,148, or 2.5 percent, from the previous year. The major capital asset events were:

Construction of highways and streets	\$1,628,014
Construction in progress	\$1,409,928

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

	2007	2006
Land	\$ 1,726	\$ 1,715
Infrastructure	49,142	47,514
Buildings	2,440	2,555
Machinery and equipment	2,138	2,502
Construction in progress	1,410	1,181
Totals	<u>\$ 56,856</u>	<u>\$ 55,467</u>

Additional information about the County's capital assets can be found in the Note 3.A.3. to the financial statements.

Long-Term Debt

The County has a net debt at December 31, 2007, of \$159,174. The debt is for financing the acquisition of capital equipment in the Sheriff's Department. The term is five years with the final payment on December 1, 2009.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The County's elected and appointed officials considered many factors when setting the 2008 budget, tax rates, and fees that will be charged for the year.

- The unemployment rate for Redwood County at the end of 2007 was 5.2 percent. This compares unfavorably with the state unemployment rate of 4.5 percent and shows an increase from the County's 4.5 percent rate of one year ago. This could impact the level of services requested by County residents. The 2007 County population is estimated at 15,851, a decrease of 964 from the 2000 census of 16,815.

- Mortgage interest rates have been extremely low, causing many to refinance their mortgages and/or finance new construction.
- The County's expenditures for 2008 are budgeted to increase 5.8 percent (\$1,283,079) from the 2007 budget. The 2008 anticipated revenues, other than tax levy, state-aid, and special assessments, are budgeted to decrease 3.8 percent (\$446,537) from the 2007 budget.
- The property tax levy for the County increased 8.25 percent (\$763,390) from 2007 but, due to a state-aid decrease (\$44,480), the net tax levy (the amount spread to taxpayers) increased 9.55 percent from 2007.

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 Courthouse, Box 130, Redwood Falls, Minnesota 56283.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2007**

Assets

Current assets

Cash and pooled investments	\$	7,883,645
Investments		6,351,573
Taxes receivable		
Prior - net		110,857
Special assessments receivable		
Current - net		71,901
Prior - net		30,469
Noncurrent - net		487,640
Accounts receivable - net		97,003
Accrued interest receivable		133,366
Due from other governments		2,861,673
Loans receivable		7,503
Inventories		255,803
Prepaid items		13,829

Noncurrent assets

Deferred charges		3,965
Long-term receivables		170,407

Capital assets

Non-depreciable		3,135,599
Depreciable - net of accumulated depreciation		53,720,647

Total Assets	\$	75,335,880
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Liabilities

Current liabilities

Accounts payable	\$	294,783
Salaries payable		323,138
Contracts payable		249,588
Due to other governments		198,588
Accrued interest payable		360
Compensated absences payable - current		47,238
Notes payable - current		80,000
Loans payable - current		46,777

Noncurrent liabilities

Compensated absences payable		724,623
General obligation notes payable - net		79,174
Loans payable		467,924

Total Liabilities	\$	2,512,193
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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

***EXHIBIT 1
(Continued)***

**STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2007**

Net Assets

Invested in capital assets - net of related debt	\$ 56,696,246
Restricted for	
Public safety	353,116
Highways and streets	2,754,202
Equipment	110,292
Other purposes	269,298
Unrestricted	<u>12,640,533</u>
Total Net Assets	<u>\$ 72,823,687</u>

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Program Revenues			Net (Expense)
Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
<u>Functions/Programs</u>				
Primary government				
Governmental activities				
General government	\$ 2,672,097	\$ 576,755	\$ 49,982	\$ -
Public safety	2,668,180	175,625	290,055	-
Highways and streets	4,827,642	137,761	2,682,588	2,401,620
Sanitation	595,415	612,491	52,039	-
Human services	4,943,432	319,274	2,019,346	-
Health	1,215,096	493,010	252,439	-
Culture and recreation	365,742	49,064	70,061	-
Conservation of natural resources	858,133	408,319	43,752	-
Economic development	34,393	-	-	-
Interest	24,497	-	-	-
	\$ 18,204,627	\$ 2,772,299	\$ 5,460,262	\$ 2,401,620
Total Governmental Activities	\$ 18,204,627	\$ 2,772,299	\$ 5,460,262	\$ 2,401,620
General Revenues				
Property taxes				\$ 7,692,729
Other taxes				8,393
Payments in lieu of tax				55,154
Grants and contributions not restricted to specific programs				1,622,853
Investment income				732,317
Miscellaneous				195,696
				\$ 10,307,142
Total general revenues				\$ 10,307,142
Change in net assets				\$ 2,736,696
Net Assets - Beginning				70,086,991
Net Assets - Ending				\$ 72,823,687

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>
<u>Assets</u>			
Cash and pooled investments	\$ 1,195,813	\$ 1,843,233	\$ 2,118,859
Petty cash and change funds	3,850	-	-
Undistributed cash in agency fund	102,444	23,292	43,409
Investments	3,051,573	-	-
Taxes receivable			
Delinquent	53,940	17,131	31,875
Special assessments receivable			
Delinquent	2,534	-	-
Noncurrent	435,537	-	-
Accounts receivable	1,088	-	59,401
Accrued interest receivable	52,865	-	-
Due from other funds	5,646	713	-
Due from other governments	47,122	2,513,067	235,393
Loans receivable	125,000	-	-
Inventories	-	255,803	-
Prepaid items	6,386	4,126	1,923
	<hr/>	<hr/>	<hr/>
Total Assets	\$ 5,083,798	\$ 4,657,365	\$ 2,490,860

EXHIBIT 3

Public Health Services	Solid Waste	Building	Ditch	Total
\$ 1,180,880	\$ 271,988	\$ 818,152	\$ 249,615	\$ 7,678,540
200	30	-	-	4,080
9,724	14,984	1,420	5,752	201,025
-	550,000	-	2,750,000	6,351,573
7,028	-	883	-	110,857
-	25,657	-	2,278	30,469
-	-	-	124,004	559,541
27,377	9,137	-	-	97,003
-	11,489	-	69,012	133,366
1,969	-	-	-	8,328
54,301	-	-	11,790	2,861,673
-	-	52,910	-	177,910
-	-	-	-	255,803
1,394	-	-	-	13,829
\$ 1,282,873	\$ 883,285	\$ 873,365	\$ 3,212,451	\$ 18,483,997

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 55,033	\$ 38,006	\$ 156,918
Salaries payable	131,997	57,631	84,145
Contracts payable	-	208,767	-
Due to other funds	2,458	-	5,562
Due to other governments	36,824	1,514	116,514
Deferred revenue - unavailable	643,442	2,477,189	31,875
Total Liabilities	\$ 869,754	\$ 2,783,107	\$ 395,014
Fund Balances			
Reserved for			
Inventories	\$ -	\$ 255,803	\$ -
Loans receivable	-	-	-
Prepaid items	6,386	4,126	1,923
Missing heirs	1,552	-	-
Recorder's technology fund	83,833	-	-
Recorder's equipment	80,762	-	-
Enhanced 911	332,417	-	-
Sheriff's contingency	3,684	-	-
Sheriff's forfeited property	12,469	-	-
Sheriff DWI assessment	2,620	-	-
Attorney's forfeited property	1,926	-	-
Victim assistance	25,078	-	-
Gun permit fees	5,374	-	-
Highway allotments	-	527,637	-
Septic/sewer loans	79,163	-	-
Law library	11,021	-	-
Encumbrances	27,683	-	-
Election equipment grant	47,130	-	-
Capital equipment	110,292	-	-
Unspent grant monies	-	-	-
Unreserved			
Designated for future expenditures	3,032,806	912,626	1,883,206
Designated for compensated absences	261,589	162,671	210,717
Designated for postemployment benefits	70,534	11,395	-
Designated for future loans	-	-	-
Designated for VEBA health plan	17,725	-	-
Undesignated	-	-	-
Total Fund Balances	\$ 4,214,044	\$ 1,874,258	\$ 2,095,846
Total Liabilities and Fund Balances	\$ 5,083,798	\$ 4,657,365	\$ 2,490,860

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

EXHIBIT 3
(Continued)

<u>Public Health Services</u>	<u>Solid Waste</u>	<u>Building</u>	<u>Ditch</u>	<u>Total</u>
\$ 4,821	\$ 14,947	\$ 2,887	\$ 22,171	\$ 294,783
38,352	8,418	-	2,595	323,138
-	-	40,821	-	249,588
308	-	-	-	8,328
4,691	138	-	38,907	198,588
12,283	37,146	883	195,294	3,398,112
\$ 60,455	\$ 60,649	\$ 44,591	\$ 258,967	\$ 4,472,537
\$ -	\$ -	\$ -	\$ -	\$ 255,803
-	-	52,910	-	52,910
1,394	-	-	-	13,829
-	-	-	-	1,552
-	-	-	-	83,833
-	-	-	-	80,762
-	-	-	-	332,417
-	-	-	-	3,684
-	-	-	-	12,469
-	-	-	-	2,620
-	-	-	-	1,926
-	-	-	-	25,078
-	-	-	-	5,374
-	-	-	-	527,637
-	-	-	-	79,163
-	-	-	-	11,021
-	-	775,864	-	803,547
-	-	-	-	47,130
-	-	-	-	110,292
-	45,000	-	-	45,000
1,121,502	580,139	-	2,000,000	9,530,279
99,522	21,761	-	15,601	771,861
-	-	-	-	81,929
-	-	-	750,000	750,000
-	-	-	-	17,725
-	175,736	-	187,883	363,619
\$ 1,222,418	\$ 822,636	\$ 828,774	\$ 2,953,484	\$ 14,011,460
\$ 1,282,873	\$ 883,285	\$ 873,365	\$ 3,212,451	\$ 18,483,997

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2007**

Fund balance - total governmental funds (Exhibit 3)	\$ 14,011,460
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	56,856,246
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	3,398,112
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	\$ (160,000)
Compensated absences	(771,861)
Loans payable	(514,701)
Deferred debt issuance charges	3,965
Unamortized discount on notes	826
Accrued interest payable	(360)
	<hr/>
	(1,442,131)
Net Assets of Governmental Activities (Exhibit 1)	<u><u>\$ 72,823,687</u></u>

REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>
Revenues			
Taxes	\$ 3,787,173	\$ 1,153,661	\$ 2,166,231
Special assessments	84,500	-	-
Licenses and permits	35,414	-	-
Intergovernmental	1,325,977	4,296,553	2,459,730
Charges for services	649,074	76,539	259,178
Gifts and contributions	5,449	-	-
Investment earnings	424,703	85,357	-
Miscellaneous	266,232	61,222	60,096
Total Revenues	\$ 6,578,522	\$ 5,673,332	\$ 4,945,235
Expenditures			
Current			
General government	\$ 2,650,268	\$ -	\$ -
Public safety	2,594,110	-	-
Highways and streets	-	5,412,548	-
Sanitation	-	-	-
Human services	-	-	4,923,349
Health	-	-	-
Culture and recreation	229,911	-	-
Conservation of natural resources	551,185	-	-
Economic development	34,393	-	-
Intergovernmental	126,282	332,530	-
Debt service			
Principal	114,287	-	-
Interest	21,831	-	-
Administrative charges	35	-	-
Total Expenditures	\$ 6,322,302	\$ 5,745,078	\$ 4,923,349
Excess of Revenues Over (Under) Expenditures	\$ 256,220	\$ (71,746)	\$ 21,886
Other Financing Sources (Uses)			
Transfers in	\$ -	\$ -	\$ -
Transfers out	(1,339,136)	-	-
Loans issued	131,606	-	-
Proceeds from the sale of capital assets	464	-	-
Total Other Financing Sources (Uses)	\$ (1,207,066)	\$ -	\$ -
Net Change in Fund Balance	\$ (950,846)	\$ (71,746)	\$ 21,886
Fund Balance - January 1	5,164,890	1,924,650	2,073,960
Increase (decrease) in reserved for inventories	-	21,354	-
Fund Balance - December 31	\$ 4,214,044	\$ 1,874,258	\$ 2,095,846

EXHIBIT 5

Public Health Services	Solid Waste	Building	Ditch	Total
\$ 504,297	\$ -	\$ 83,712	\$ -	\$ 7,695,074
-	356,545	-	312,125	753,170
26	50	-	-	35,490
356,583	52,044	16,819	183	8,507,889
482,982	-	-	-	1,467,773
1,389	-	-	-	6,838
42,949	32,098	18,750	152,272	756,129
4,747	249,778	76,533	3,592	722,200
\$ 1,392,973	\$ 690,515	\$ 195,814	\$ 468,172	\$ 19,944,563
\$ -	\$ -	\$ 792,928	\$ -	\$ 3,443,196
-	-	-	-	2,594,110
-	-	-	-	5,412,548
-	559,876	-	-	559,876
-	-	-	-	4,923,349
1,195,747	-	-	-	1,195,747
-	-	-	-	229,911
-	-	-	281,198	832,383
-	-	-	-	34,393
-	-	-	-	458,812
-	-	-	-	114,287
-	-	-	-	21,831
-	-	-	-	35
\$ 1,195,747	\$ 559,876	\$ 792,928	\$ 281,198	\$ 19,820,478
\$ 197,226	\$ 130,639	\$ (597,114)	\$ 186,974	\$ 124,085
\$ -	\$ -	\$ 1,339,136	\$ -	\$ 1,339,136
-	-	-	-	(1,339,136)
-	-	-	-	131,606
-	-	-	-	464
\$ -	\$ -	\$ 1,339,136	\$ -	\$ 132,070
\$ 197,226	\$ 130,639	\$ 742,022	\$ 186,974	\$ 256,155
1,025,192	691,997	86,752	2,766,510	13,733,951
-	-	-	-	21,354
\$ 1,222,418	\$ 822,636	\$ 828,774	\$ 2,953,484	\$ 14,011,460

**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, 2007**

Net change in fund balance - total governmental funds (Exhibit 5) \$ 256,155

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 (decrease) in revenue deferred as unavailable.

Deferred revenue - December 31	\$ 3,398,112	
Deferred revenue - January 1	<u>(2,276,816)</u>	1,121,296

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

Expenditures for general capital assets and infrastructure	\$ 3,371,082	
Net book value of assets disposed of	(131,953)	
Current year depreciation	<u>(1,849,981)</u>	1,389,148

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	\$ 75,000	
Loans payable	<u>39,287</u>	114,287
 New debt issued		
Septic/ISTS loans		(131,606)

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	\$ 150	
Change in compensated absences	(31,693)	
Change in inventories	21,354	
Amortization of discounts and deferred issuance charges	<u>(2,395)</u>	<u>(12,584)</u>

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 2,736,696

FIDUCIARY FUNDS

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUND
DECEMBER 31, 2007**

<u>Assets</u>	
Cash and pooled investments	<u>\$ 389,726</u>
 <u>Liabilities</u>	
Accounts payable	\$ 106,285
Due to other governments	<u>283,441</u>
Total Liabilities	<u>\$ 389,726</u>

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2007

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, 2007. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Redwood County was established February 6, 1862, and is an organized County having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Redwood County. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The County Auditor-Treasurer, elected on a County-wide basis, serves as the clerk of the Board of Commissioners but has no vote.

Blended Component Unit

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

<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 which are described in Note 6.B. The County also participates in jointly-governed organizations which are described in Note 6.C.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about Redwood County. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported in a single column.

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

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

REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

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

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

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

REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

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

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

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.

REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor-Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2007, 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 2007 were \$192,541.

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 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7). Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

2. Receivables and Payables

Activity between funds that represents lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (the current portion of interfund loans) or "advances to/from other funds" (the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

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

All receivables are shown net of an allowance for uncollectibles.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

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

3. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) 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 market 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.

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.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Capital Assets (Continued)

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

Assets	Years
Buildings	25 - 40
Building improvements	20 - 35
Public domain infrastructure	15 - 70
Furniture, equipment, and vehicles	3 - 15

5. Compensated Absences

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

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.

	Unavailable
Delinquent property taxes	\$ 110,857
Delinquent and non-current special assessments	590,010
Loans receivable	125,000
Interest on investments	106,932
Receivables that do not provide current financial resources	2,465,313
Total Deferred Revenues	\$ 3,398,112

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Long-Term Obligations

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

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

8. Fund Equity

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

9. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

<u>Fund</u>	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General	\$ 6,322,302	\$ 5,991,726	\$ 330,576
Special Revenue			
Solid Waste	559,876	545,019	14,857
Building	792,928	350,000	442,928

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 7,883,645
Investments	6,351,573
Statement of fiduciary net assets	
Cash and pooled investments	389,726
Total Cash and Investments	\$ 14,624,944

Deposits	
Checking	\$ 70,151
Money market savings	1,162,251
Certificates of deposit	6,350,000
Invested in MAGIC Fund	4,230,783
Invested in mutual funds	2,635,831
Invested in repurchase agreement	170,275
Invested in GNMA account	1,573
Petty cash and change funds	4,080
Total Deposits, Cash on Hand, and Investments	\$ 14,624,944

a. Deposits

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

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated “A” or better, revenue obligations rated “AA” or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County'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, 2007, the County's deposits were not exposed to custodial credit risk.

b. Investments

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the County:

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

3. 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.

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.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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, 2007, the County's investments were not exposed to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. The following table presents the County's investment balances at December 31, 2007, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
U.S. government agency security					
Governmental National Mortgage Association	N/R	N/A	<5%	10/15/2008	\$ 1,573
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	N/A	N/A	\$ 4,230,783
Federated Prime Obligations Fund	N/R	N/A	N/A	N/A	2,635,831
Total investment pools/mutual funds					\$ 6,866,614

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

1. Deposits and Investments

b. Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Repurchase agreement	N/A	N/A	N/A	N/A	\$ 170,275
Total investments					\$ 7,038,462
Checking					70,151
Savings					1,162,251
Certificates of deposit					6,350,000
Petty cash					4,080
Total Cash and Investments					<u>\$ 14,624,944</u>

N/A - Not Applicable

N/R - Not Rated

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

2. Operating Lease

Starting in 2007, the County leased the County's building located at 403 South Mill Street (old Morgan's Grocery Store) to Jonti-Craft, Inc., 171 Highway 68, Wabasso, Minnesota 56293, for the term of May 16, 2007, to July 31, 2008. Monthly rent of \$2,250 is based on \$0.15/square foot.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 436,148	\$ -	\$ -	\$ 436,148
Right-of-way	1,279,037	10,486	-	1,289,523
Construction in progress	1,180,678	1,409,928	1,180,678	1,409,928
Total capital assets not depreciated	\$ 2,895,863	\$ 1,420,414	\$ 1,180,678	\$ 3,135,599
Capital assets depreciated				
Buildings	\$ 5,660,265	\$ -	\$ -	\$ 5,660,265
Machinery and equipment	6,275,866	296,720	199,137	6,373,449
Infrastructure	60,094,308	2,834,626	-	62,928,934
Total capital assets depreciated	\$ 72,030,439	\$ 3,131,346	\$ 199,137	\$ 74,962,648
Less: accumulated depreciation for				
Buildings	\$ 3,104,979	\$ 115,397	\$ -	\$ 3,220,376
Machinery and equipment	3,774,218	527,972	67,184	4,235,006
Infrastructure	12,580,007	1,206,612	-	13,786,619
Total accumulated depreciation	\$ 19,459,204	\$ 1,849,981	\$ 67,184	\$ 21,242,001
Total capital assets depreciated, net	\$ 52,571,235	\$ 1,281,365	\$ 131,953	\$ 53,720,647
Governmental Activities Capital Assets, Net	\$ 55,467,098	\$ 2,701,779	\$ 1,312,631	\$ 56,856,246

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

General government	\$ 140,255
Public safety	101,434
Highways and streets, including depreciation of infrastructure assets	1,545,728
Sanitation	29,469
Human services	5,332
Health	9,012
Culture and recreation	12,316
Conservation of natural resources	6,435
Total Depreciation Expense - Governmental Activities	\$ 1,849,981

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. 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, 2007, is as follows:

Receivable Fund	Payable Fund	Amount
General	Human Services Public Health	\$ 5,338 308
Total due to General Fund		\$ 5,646
Road and Bridge	General	\$ 713
Public Health Services	General Human Services	\$ 1,745 224
Total due to Public Health Services Fund		\$ 1,969
Total Due To/From Other Funds		\$ 8,328

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

Interfund transfers for the year ended December 31, 2007, consisted of the following:

Transfer to Building Fund from General Fund	<u>\$ 1,339,136</u>	Provide funding
---	---------------------	-----------------

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Construction Commitments

The government has active construction projects as of December 31, 2007. The projects include the following:

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Roads and bridges	\$ 1,801,226	\$ 279,713
Building projects	297,367	803,548

2. Other Postemployment Benefits

Retired Officials' and Employees' Health Insurance Benefits

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 ten years of service with Redwood County, qualify for health insurance benefits. Elected officials qualify if they serve a minimum of two years as an elected Redwood County official. The elected official or his or her surviving spouse and dependents will receive one year of paid or partially paid medical insurance for every two years of service to Redwood County. Additional years, not a multiple of two, are prorated. A maximum of six years of paid insurance is available to elected officials. For retired employees, the County rates are based on the County's group health policy rates in effect at the time of retirement and are a fixed amount until discontinued at age 65 for retired employees and after a maximum of six years for elected officials. As of year-end December 31, 2007, the County has nine eligible participants--four elected officials and five employees. The County finances the plan on a pay-as-you-go basis. During 2007, the County expended \$37,387 for these benefits.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Long-Term Debt

Loans Payable

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

<u>Types 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, 2007</u>
Clean water loans					
Cottonwood River	2017	\$ 21,245	2.00	\$ 423,140	\$ 315,699
Redwood River	2017	6,326	2.00	123,047	114,158
Redwood River TMDL	-	-	-	31,594	31,594
Middle Minnesota	-	-	-	8,000	8,000
Cottonwood River Watershed	-	-	-	45,250	45,250
Total					<u>\$ 514,701</u>

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

Notes Payable

In 2005, Redwood County issued a capital note for \$375,000 to finance the acquisition of capital equipment in the Sheriff's Department. Payments on the notes payable will be made in the General 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, 2007</u>
2005 General Obligation Capital Notes, Series 2005A	2009	\$65,000 - \$80,000	2.05 to 2.85	<u>\$ 375,000</u>	\$ 160,000
Less: unamortized discount					<u>(826)</u>
Total General Obligation Notes, Net					<u>\$ 159,174</u>

4. Debt Service Requirements

Debt service requirements at December 31, 2007, were as follows:

<u>Year Ending December 31</u>	<u>General Obligation Capital Notes</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 80,000	\$ 4,320
2009	80,000	2,280
Total	<u>\$ 160,000</u>	<u>\$ 6,600</u>

<u>Year Ending December 31</u>	<u>Loans Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 46,777	\$ 8,364
2009	47,717	7,424
2010	48,677	6,465
2011	49,655	5,487
2012	50,653	4,489
2013 - 2017	<u>186,378</u>	<u>9,023</u>
Total	<u>\$ 429,857</u>	<u>\$ 41,252</u>

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Debt Service Requirements (Continued)

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

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Notes payable					
General obligation notes	\$ 235,000	\$ -	\$ 75,000	\$ 160,000	\$ 80,000
Less: deferred amounts for issuance discounts	(1,238)	-	(412)	(826)	-
Total bonds payable	\$ 233,762	\$ -	\$ 74,588	\$ 159,174	\$ 80,000
Clean water loans payable	422,382	131,606	39,287	514,701	46,777
Compensated absences	740,168	31,693	-	771,861	47,238
Governmental Activity Long-Term Liabilities	<u>\$ 1,396,312</u>	<u>\$ 163,299</u>	<u>\$ 113,875</u>	<u>\$ 1,445,736</u>	<u>\$ 174,015</u>

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution 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.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

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

For all Public Employees Retirement Fund members 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. A reduced retirement annuity is also available to eligible members seeking early retirement.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.75 percent, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan increased in 2008 to 6.00 percent. Public Employees Police and Fire Fund members were required to contribute 7.80 percent of their annual covered salary in 2007. That rate increased to 8.60 percent in 2008. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2007 and 2008:

	2007	2008
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.25	6.50
Public Employees Police and Fire Fund	11.70	12.90
Public Employees Correctional Fund	8.75	8.75

The County's contributions for the years ending December 31, 2007, 2006, and 2005, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2007	\$ 349,566	\$ 72,964	\$ 34,814
2006	316,912	64,545	33,577
2005	277,323	52,688	30,877

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

B. Defined Contribution Plan

The Public Employees Defined Contribution Plan is a multiple-employer deferred compensation plan for local government officials, except elected county sheriffs. The plan is established and administered in accordance with Minn. Stat. ch. 353D. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minn. Stat. § 353D.03 specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2007, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 5,472	\$ 5,472
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

5. Risk Management

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

5. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$400,000 per claim in 2007. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT. The Property and Casualty Division of MCIT is self-sustaining, and the County pays an annual premium to cover current and future losses. MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

B. Joint Ventures

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.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Red Rock Rural Water System (Continued)

The Red Rock Rural Water System is governed by a nine-member Board appointed for terms of three years by the District Court.

Each county is responsible for levying and collecting the special assessments from the benefited properties within 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, 2005 (the latest information available), were \$11,370,000, and notes payable were \$34,310. Net assets were \$17,470,194.

A complete financial report can be obtained at 305 West Whited Street, Jeffers, Minnesota 56145.

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 2007, Redwood County made no contributions to the Joint Powers Board. Complete financial statements for the Minnesota River Basin Joint Powers Board can be obtained from its administrative office at Administration Building No. 14, 600 East 4th Street, Chaska, Minnesota 55318.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Southwestern Minnesota Adult Mental Health Consortium Board

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

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

The following is a summary of the Consortium Board's annual financial report for the year ended December 31, 2005 (the latest information available):

Total assets	\$ 1,148,132
Total liabilities	497,546
Total net assets	650,586
Total revenues	1,960,287
Total expenditures	1,671,076
Net change in net assets	289,211

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

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

REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA

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

C. Jointly-Governed Organizations

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

Family Service Collaborative

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

Area II Minnesota River Basin Project

The Area II Minnesota River Basin Project provides programs for flood reduction measures to the area between the Cities of Ortonville and Mankato. During the year, the County contributed \$10,959 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 \$18,867 to the RCRCA in 2007.

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REQUIRED SUPPLEMENTARY INFORMATION

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 3,636,746	\$ 3,636,746	\$ 3,787,173	\$ 150,427
Special assessments	75,000	75,000	84,500	9,500
Licenses and permits	24,505	24,505	35,414	10,909
Intergovernmental	1,136,090	1,136,090	1,325,977	189,887
Charges for services	592,500	592,500	649,074	56,574
Gifts and contributions	3,000	3,000	5,449	2,449
Investment earnings	225,000	225,000	424,703	199,703
Miscellaneous	175,155	175,155	266,232	91,077
Total Revenues	\$ 5,867,996	\$ 5,867,996	\$ 6,578,522	\$ 710,526
Expenditures				
Current				
General government				
Commissioners	\$ 236,943	\$ 236,943	\$ 280,476	\$ (43,533)
Law library	-	-	25,979	(25,979)
County administration	219,600	219,600	254,325	(34,725)
Coordinator	232,955	232,955	263,691	(30,736)
Auditor-Treasurer	305,515	305,515	295,382	10,133
License center	125,215	125,215	128,537	(3,322)
Assessor	263,007	263,007	256,979	6,028
Elections	35,100	35,100	1,417	33,683
Computer	73,775	73,775	100,194	(26,419)
Attorney	302,759	302,759	333,676	(30,917)
Recorder	262,221	262,221	251,420	10,801
Buildings and plant	271,388	271,388	238,026	33,362
Veterans service officer	123,456	123,456	122,050	1,406
Other general government	93,500	93,500	98,116	(4,616)
Total general government	\$ 2,545,434	\$ 2,545,434	\$ 2,650,268	\$ (104,834)
Public safety				
Sheriff	\$ 2,198,091	\$ 2,198,091	\$ 2,165,571	\$ 32,520
Coroner	10,000	10,000	5,569	4,431
E-911 system	17,660	17,660	27,558	(9,898)
Probation and parole	255,315	255,315	249,757	5,558
Emergency management	90,239	90,239	113,242	(23,003)
Other public safety	36,100	36,100	32,413	3,687
Total public safety	\$ 2,607,405	\$ 2,607,405	\$ 2,594,110	\$ 13,295

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

***Schedule 1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<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	\$ 3,200	\$ 3,200	\$ 2,471	\$ 729
Parks	133,308	133,308	118,479	14,829
Minnesota trails	40,000	40,000	70,061	(30,061)
Other	39,000	39,000	38,900	100
Total culture and recreation	\$ 215,508	\$ 215,508	\$ 229,911	\$ (14,403)
Conservation of natural resources				
Extension	\$ 86,136	\$ 86,136	\$ 88,607	\$ (2,471)
Agricultural inspection	139,450	139,450	151,552	(12,102)
Water quality loan program	100,000	100,000	131,606	(31,606)
Other	182,617	182,617	179,420	3,197
Total conservation of natural resources	\$ 508,203	\$ 508,203	\$ 551,185	\$ (42,982)
Economic development				
Other	\$ 30,000	\$ 30,000	\$ 34,393	\$ (4,393)
Intergovernmental				
Library	\$ -	\$ -	\$ 126,282	\$ (126,282)
Debt service				
Principal	\$ 75,000	\$ 75,000	\$ 114,287	\$ (39,287)
Interest	\$ 10,176	\$ 10,176	\$ 21,831	\$ (11,655)
Administrative (fiscal) charges	\$ -	\$ -	\$ 35	\$ (35)
Total Expenditures	\$ 5,991,726	\$ 5,991,726	\$ 6,322,302	\$ (330,576)
Excess of Revenues Over (Under) Expenditures	\$ (123,730)	\$ (123,730)	\$ 256,220	\$ 379,950

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources (Uses)				
Transfers out	\$ -	\$ -	\$ (1,339,136)	\$ (1,339,136)
Loans issued	-	-	131,606	131,606
Proceeds from the sale of assets	-	-	464	464
Total Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,207,066)</u>	<u>\$ (1,207,066)</u>
Net Change in Fund Balance	\$ (123,730)	\$ (123,730)	\$ (950,846)	\$ (827,116)
Fund Balance - January 1	<u>5,164,890</u>	<u>5,164,890</u>	<u>5,164,890</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 5,041,160</u></u>	<u><u>\$ 5,041,160</u></u>	<u><u>\$ 4,214,044</u></u>	<u><u>\$ (827,116)</u></u>

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,260,933	\$ 1,260,933	\$ 1,153,661	\$ (107,272)
Intergovernmental	4,187,977	4,187,977	4,296,553	108,576
Charges for services	50,000	50,000	76,539	26,539
Investment earnings	50,000	50,000	85,357	35,357
Miscellaneous	90,000	90,000	61,222	(28,778)
Total Revenues	\$ 5,638,910	\$ 5,638,910	\$ 5,673,332	\$ 34,422
Expenditures				
Current				
Highways and streets				
Administration	\$ 473,408	\$ 473,408	\$ 425,719	\$ 47,689
Maintenance	1,634,059	1,634,059	1,480,603	153,456
Construction	2,895,547	2,895,547	2,896,167	(620)
Equipment and maintenance shops	868,986	868,986	610,059	258,927
Total highways and streets	\$ 5,872,000	\$ 5,872,000	\$ 5,412,548	\$ 459,452
Intergovernmental				
Highways and streets	-	-	332,530	(332,530)
Total Expenditures	\$ 5,872,000	\$ 5,872,000	\$ 5,745,078	\$ 126,922
Net Change in Fund Balance	\$ (233,090)	\$ (233,090)	\$ (71,746)	\$ 161,344
Fund Balance - January 1	1,924,650	1,924,650	1,924,650	-
Increase (decrease) in reserved for inventories	-	-	21,354	21,354
Fund Balance - December 31	\$ 1,691,560	\$ 1,691,560	\$ 1,874,258	\$ 182,698

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,577,902	\$ 2,577,902	\$ 2,166,231	\$ (411,671)
Intergovernmental	2,230,494	2,230,494	2,459,730	229,236
Charges for services	220,300	220,300	259,178	38,878
Miscellaneous	121,000	121,000	60,096	(60,904)
Total Revenues	\$ 5,149,696	\$ 5,149,696	\$ 4,945,235	\$ (204,461)
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,442,414	\$ 1,442,414	\$ 1,449,744	\$ (7,330)
Social services	3,707,282	3,707,282	3,473,605	233,677
Total Expenditures	\$ 5,149,696	\$ 5,149,696	\$ 4,923,349	\$ 226,347
Net Change in Fund Balance	\$ -	\$ -	\$ 21,886	\$ 21,886
Fund Balance - January 1	2,073,960	2,073,960	2,073,960	-
Fund Balance - December 31	\$ 2,073,960	\$ 2,073,960	\$ 2,095,846	\$ 21,886

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
PUBLIC HEALTH SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 508,258	\$ 508,258	\$ 504,297	\$ (3,961)
Licenses and permits	-	-	26	26
Intergovernmental	335,725	335,725	356,583	20,858
Charges for services	373,186	373,186	482,982	109,796
Gifts and contributions	1,000	1,000	1,389	389
Investment earnings	12,000	12,000	42,949	30,949
Miscellaneous	4,700	4,700	4,747	47
Total Revenues	\$ 1,234,869	\$ 1,234,869	\$ 1,392,973	\$ 158,104
Expenditures				
Current				
Health				
Nursing service	1,349,813	1,349,813	1,195,747	154,066
Net Change in Fund Balance	\$ (114,944)	\$ (114,944)	\$ 197,226	\$ 312,170
Fund Balance - January 1	1,025,192	1,025,192	1,025,192	-
Fund Balance - December 31	\$ 910,248	\$ 910,248	\$ 1,222,418	\$ 312,170

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 198,000	\$ 198,000	\$ 356,545	\$ 158,545
Licenses and permits	650	650	50	(600)
Intergovernmental	49,500	49,500	52,044	2,544
Investment earnings	21,000	21,000	32,098	11,098
Miscellaneous	142,432	142,432	249,778	107,346
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenues	<u>\$ 411,582</u>	<u>\$ 411,582</u>	<u>\$ 690,515</u>	<u>\$ 278,933</u>
Expenditures				
Current				
Sanitation				
Solid waste	\$ 299,371	\$ 299,371	\$ 301,979	\$ (2,608)
Recycling	233,248	233,248	249,733	(16,485)
Hazardous waste	10,400	10,400	8,066	2,334
Waste to energy	2,000	2,000	98	1,902
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	<u>\$ 545,019</u>	<u>\$ 545,019</u>	<u>\$ 559,876</u>	<u>\$ (14,857)</u>
Net Change in Fund Balance	<u>\$ (133,437)</u>	<u>\$ (133,437)</u>	<u>\$ 130,639</u>	<u>\$ 264,076</u>
Fund Balance - January 1	<u>691,997</u>	<u>691,997</u>	<u>691,997</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 558,560</u></u>	<u><u>\$ 558,560</u></u>	<u><u>\$ 822,636</u></u>	<u><u>\$ 264,076</u></u>

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

Schedule 6

**BUDGETARY COMPARISON SCHEDULE
BUILDING SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 75,000	\$ 75,000	\$ 83,712	\$ 8,712
Intergovernmental	14,000	14,000	16,819	2,819
Investment earnings	35,000	35,000	18,750	(16,250)
Miscellaneous	63,500	63,500	76,533	13,033
Total Revenues	\$ 187,500	\$ 187,500	\$ 195,814	\$ 8,314
Expenditures				
Current				
General government				
Buildings and plant	350,000	350,000	792,928	(442,928)
Excess of Revenues Over (Under) Expenditures	\$ (162,500)	\$ (162,500)	\$ (597,114)	\$ (434,614)
Other Financing Sources (Uses)				
Transfers in	-	-	1,339,136	1,339,136
Net Change in Fund Balance	\$ (162,500)	\$ (162,500)	\$ 742,022	\$ 904,522
Fund Balance - January 1	86,752	86,752	86,752	-
Fund Balance - December 31	<u><u>\$ (75,748)</u></u>	<u><u>\$ (75,748)</u></u>	<u><u>\$ 828,774</u></u>	<u><u>\$ 904,522</u></u>

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

Schedule 7

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 264,000	\$ 264,000	\$ 312,125	\$ 48,125
Intergovernmental	183	183	183	-
Investment earnings	115,000	115,000	152,272	37,272
Miscellaneous	-	-	3,592	3,592
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	\$ 379,183	\$ 379,183	\$ 468,172	\$ 88,989
Expenditures				
Current				
Conservation of natural resources				
Other	292,083	292,083	281,198	10,885
	<hr/>	<hr/>	<hr/>	<hr/>
Net Change in Fund Balance	\$ 87,100	\$ 87,100	\$ 186,974	\$ 99,874
Fund Balance - January 1	2,766,510	2,766,510	2,766,510	-
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Balance - December 31	\$ 2,853,610	\$ 2,853,610	\$ 2,953,484	\$ 99,874
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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2007

1. General Budget Policies

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

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

2. Budget Basis of Accounting

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

3. Excess of Expenditures Over Budget

Fund	Expenditures	Budget	Excess
General	\$ 6,322,302	\$ 5,991,726	\$ 330,576
Special Revenue			
Solid Waste	559,876	545,019	14,857
Building	792,928	350,000	442,928

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SUPPLEMENTARY INFORMATION

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

Statement 1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Balance January 1	Additions	Deductions	Balance December 31
<u>FAMILY SERVICES COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 151,717</u>	<u>\$ 368,175</u>	<u>\$ 422,019</u>	<u>\$ 97,873</u>
<u>Liabilities</u>				
Accounts payable	<u>\$ 151,717</u>	<u>\$ 368,175</u>	<u>\$ 422,019</u>	<u>\$ 97,873</u>
<u>SOCIAL SERVICES SPECIAL PROJECTS</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 6,280</u>	<u>\$ 8,215</u>	<u>\$ 6,083</u>	<u>\$ 8,412</u>
<u>Liabilities</u>				
Accounts payable	<u>\$ 6,280</u>	<u>\$ 8,215</u>	<u>\$ 6,083</u>	<u>\$ 8,412</u>
<u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ -</u>	<u>\$ 895,585</u>	<u>\$ 895,585</u>	<u>\$ -</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ -</u>	<u>\$ 895,585</u>	<u>\$ 895,585</u>	<u>\$ -</u>

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

*Statement 1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 296,764</u>	<u>\$ 17,319,783</u>	<u>\$ 17,333,106</u>	<u>\$ 283,441</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 296,764</u>	<u>\$ 17,319,783</u>	<u>\$ 17,333,106</u>	<u>\$ 283,441</u>
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 454,761</u>	<u>\$ 18,591,758</u>	<u>\$ 18,656,793</u>	<u>\$ 389,726</u>
<u>Liabilities</u>				
Accounts payable	\$ 157,997	\$ 376,390	\$ 428,102	\$ 106,285
Due to other governments	<u>296,764</u>	<u>18,215,368</u>	<u>18,228,691</u>	<u>283,441</u>
Total Liabilities	<u>\$ 454,761</u>	<u>\$ 18,591,758</u>	<u>\$ 18,656,793</u>	<u>\$ 389,726</u>

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

Schedule 8

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Shared Revenue

State

Highway users tax	\$ 3,831,741
County program aid	766,856
PERA rate reimbursement	27,660
Disparity reduction aid	45,023
Police aid	64,545
Enhanced 911	91,672
Market value credit	730,589
Casino credit	52,725
	<hr/>

Total Shared Revenue **\$ 5,610,811**

Reimbursement for Services

Minnesota Department of Human Services **\$ 1,056,568**

Payments

Local

Payments in lieu of taxes	\$ 55,154
Local contributions	1,000
	<hr/>

Total Payments **\$ 56,154**

Grants

State

Minnesota Department/Board of Corrections	\$ 44,531
Health	92,405
Human Services	750,149
Natural Resources	70,061
Public Safety	67,087
Veterans Affairs	2,800
Water and Soil Resources	43,752
Pollution Control Agency	52,039
Peace Officer Standards and Training Board	4,824
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Total State **\$ 1,127,648**

Federal

Department of Agriculture	\$ 89,286
Transportation	229,305
Health and Human Services	325,003
Homeland Security	13,114
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Total Federal **\$ 656,708**

Total State and Federal Grants **\$ 1,784,356**

Total Intergovernmental Revenue **\$ 8,507,889**

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

Schedule 9

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2007

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Redwood County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Redwood County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." We consider some of the deficiencies to be material weaknesses.
- C. No instances of noncompliance material to the financial statements of Redwood County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs are reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Redwood County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Women, Infants, and Children	CFDA #10.557
Highway Planning and Construction	CFDA #20.205
Social Services Block Grant	CFDA #93.667
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Redwood County was determined not to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

99-1 Internal Accounting Controls

Due to the limited number of office personnel within the various County offices and departments, segregation of the accounting functions necessary to ensure adequate internal accounting control is not always possible. Offices and departments we noted this year that do not have sufficient segregation of duties include the Auditor-Treasurer, Payroll, License Center, Recorder, Environmental Office, Sheriff, Social Welfare, and Money Management.

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

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

In the Auditor-Treasurer's Office, the person who does the monthly bank reconciliations performs daily receipting and balancing, prepares deposits, and is sometimes required to take the deposits to the bank.

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

Client's Response:

The Audit Committee will meet and discuss ways to segregate duties with the available and limited staff.

00-6 Annual Adopted Budget and Budget Policy

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

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

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

Client's Response:

The County Board will adopt and record in the minutes, the fund budgets by major revenue source and estimated expenditures by function and department for each of the operational funds. Someone independent of the budget process will enter the original and any budget amendments to the general ledger.

05-4 Timely Remittance of the County Sheriff's Canteen Cash Collections

The Sheriff's Department offers a canteen to inmates where they can purchase various items. A separate checking account is used for the canteen fund. The Sheriff reconciles this account to the bank statement; however, the ending cash balance was \$19,120.50 at December 31, 2007, and the canteen funds collected in May 2007 were not remitted to the County Auditor-Treasurer's Office until December 2007.

We recommend that the Sheriff determine the activity of this account and remit cash proceeds to the County Auditor-Treasurer's Office on a more current basis.

Client's Response:

The Auditor-Treasurer's Office will work with the Sheriff's Office in bringing the remaining months up to date.

06-2 Access to the Computer Systems - Passwords

The controls over computer passwords need to be strengthened. Currently, computer passwords are not changed on a regular basis, and the minimum allowed length of passwords is shorter than recommended. Also, we noted that two road and bridge employees share the same username and password. Weak control over access to the computer systems increases the risk of access to the systems by unauthorized individuals.

We recommend that County management strengthen access controls to the information system by changing employee passwords on a regular basis, using strong password systems which require longer passwords with more randomized characters, and eliminate the sharing of usernames and passwords among employees. Also, we recommend that the County review access for all users to ensure that their access is commensurate with their job duties and responsibilities.

Client's Response:

Policies will be written to establish more secure passwords including length and periodic password changes.

06-5 Accounting Policies and Procedures Manual

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

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

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

Client's Response:

The Audit Committee will develop an accounting policies and procedures manual that will be Board approved.

06-6 Capital Assets Policies and Procedures

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

The County also does not have policies and procedures in place to identify capital asset additions and deletions for entry to the capital asset system. County employees generally identify capital asset additions by reviewing capital expenditure accounts at year-end and determining which assets to capitalize and by sending out listings to the departments for their review and return with changes. No system is in place to identify asset disposals, and it is not clear how the old costs of infrastructure assets no longer in use are being deleted, if at all. We also noted that the County is carrying a significant amount of fully depreciated assets. A physical inventory of capital assets has not been done since the capital asset records were initially established in 2003.

We recommend the County Board establish a capital assets policy to define the County's accounting policies over capital assets. The Board should also establish policies and procedures to identify capital asset additions and deletions. Department heads should report capital asset additions and deletions to the person maintaining the capital asset records at least annually. Also, we recommend a physical inventory of capital assets be performed periodically. This physical inventory can be rotated so that a portion of the capital assets is inventoried each year. Each asset should be counted at least once every four years. Some critical capital assets may need more frequent accounting.

Client's Response:

The Audit Committee will develop a policy for capital assets that will be Board approved.

06-7 Computer Risk Management

The County has not developed a formal plan to identify and manage risks associated with its computer system.

Risk management begins with a risk assessment of the County's computer system to identify those risks that could negatively influence computer operations. Internal controls should be implemented to reduce the identified risks. Internal controls implemented should be documented in a well-maintained policies and procedures manual, which should be communicated to the County's staff. Staff adherence to these policies and procedures should be monitored. Because computer systems are ever changing, the County should include in its plan periodic reassessment of risk to ensure existing internal controls are still effective.

We recommend the County Board develop a plan to ensure that internal controls are in place to reduce the risk associated with the County's computer systems.

Client's Response:

The Technology Committee will be discussing and drafting policy and procedures for risk assessment and how to address those risks.

06-10 Adding New Vendors to the Accounting System

Internal controls over the process for adding new vendors to the accounting system have improved; however, a review by someone independent of the process has not yet been implemented.

We recommend that the County continue developing the new vendor verification process and have an individual outside of the accounts payable area periodically review the creation and verification process. We also recommend that for invoices submitted by vendors that have not previously had business with the County, procedures should be established to verify whether the vendor is legitimate. Procedures could include looking up the vendor in the phone book or on the internet or requiring the company to send information about their business. Periodically, the vendor listing should be reviewed for old, unused vendors, and those vendors should be removed from the system.

Client's Response:

The Audit Committee will develop policies and procedures on adding new vendors to the accounting system which will be Board approved.

PREVIOUSLY REPORTED ITEMS RESOLVED

Financial Reporting (06-1)

Due to coding and mapping errors, audit adjustments were required to adjust the general ledger account balances so that the financial statements would be fairly stated in accordance with generally accepted accounting principles.

Resolution

The Auditor-Treasurer has improved the mapping of general ledger accounts and has prepared trial balances and financial statements as of and for the year ended December 31, 2007, that are fairly stated in accordance with generally accepted accounting principles.

Social Welfare Bank Reconciliation (06-3)

The Social Welfare checking account had not been reconciled to the bank balance since July 2006.

Resolution

The bank reconciliations are up to date, and they are reviewed and approved by the Fiscal Supervisor.

Environmental Office Accounting for Vending Machine Commissions (06-4)

Vending machine commissions in the Environmental Office were not deposited with the County Auditor-Treasurer's Office, and the related expenditures were not recorded in the accounting system.

Resolution

The Environmental Office began depositing vending commissions with the Auditor-Treasurer's Office, and related expenditures are now recorded in the accounting system.

Payroll Accounting (06-8)

The duties of the payroll function were not segregated. No one independent of the payroll clerk reviewed changes to the payroll.

Resolution

An additional payroll staff person was hired and duties redistributed to create greater segregation of duties.

Investments (06-9)

There was a lack of segregation of duties in recording investment transactions. The Auditor-Treasurer performed all the functions.

Resolution

The interest receipting is handled by another staff member. Investment transactions are reported to the County Board.

Accounting System Journal Entries (06-11)

The County was not limiting access to the accounting system journal entry function, and the journal entries were not reviewed or approved.

Resolution

Access has been limited to those who have authority to make journal entries. A procedure has been implemented to log all the journal entries in a file to be reviewed and approved by the County Coordinator. After the journal entries are recorded in the general ledger system, someone independent of the journal entry process compares the entry with the log to see that the approved entry was made correctly.

Veterans Service Officer's Signature Stamp (06-12)

The Veterans Service Officer's signature stamp was not reassigned to an authorized person.

Resolution

The Veterans Service Officer's signature stamp is no longer in use. Until the Veterans Service Officer position is filled, the County Coordinator is approving vouchers and time reports.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

05-2 Collateral Substitution - Depository Pledge Agreement

The procedures used for pledging new collateral and for collateral substitutions changed for various banks. The depository pledge agreement states:

“...Bank may substitute Eligible Securities for any of the Collateral held by Custodian at any time by providing Custodian with a substitution notice signed by an authorized representative of the Bank, provided that the market value of the Collateral following such substitution would equal or exceed the Required Collateral Value. If Bank elects to require Depositor’s written consent on a substitution notice in connection with any substitution complies with the preceding sentence, Depositor agrees to provide it promptly upon Bank’s request.”

Minn. Stat. § 118A.03, subd. 5, states, “[a] financial institution may withdraw excess collateral or substitute other collateral after giving written notice to the governmental entity and receiving confirmation.” The processes described by the bank do not meet this standard because they allow the financial institution to substitute collateral before it gives any notice to the governmental entity.

We recommend that the County Attorney review these procedural changes for compliance with Minn. Stat. § 118A.03, subd. 5.

Client’s Response:

The Auditor-Treasurer will work with the County Attorney on this matter.

ITEMS ARISING THIS YEAR

07-1 Performance Bonds

Performance bonds for two reroofing contracts with the same vendor were not received by the County before the work was begun. Minn. Stat. § 574.26 requires contractors doing public work to give both a performance bond and a payment bond in an amount not less than the contract price if the contract is more than \$75,000.

We recommend that the County obtain performance bonds from contractors when the contract amount exceeds \$75,000 as required by statute.

Client's Response:

All future contracts will have performance bonds in place before work begins.

07-2 Out-of-State Travel Policy

The County policy governing out-of-state travel does not comply with Minn. Stat. § 471.661. The statute requires that the County Board develop a policy for elected officials that includes: (1) when travel outside the state is appropriate, (2) applicable expense limits, and (3) procedures for approval of the travel.

We recommend that the County Board develop a policy for out-of-state travel that complies with the statute.

Client's Response:

A policy will be drafted and presented to the Board.

PREVIOUSLY REPORTED ITEMS RESOLVED

Security Interest in Collateral Assignments Documentation (02-2)

The County did not have documentation demonstrating a perfected security interest in pledged collateral with US Bank and has an outdated one for Integrity Bank Plus. In a Federal Court decision, the Court ruled that if a municipality fails to perfect a security interest under federal law, its right to such collateral in the event of default is not enforceable.

Resolution

US Bank sent documentation for a perfected security interest in pledged collateral, and Integrity Bank Plus updated its documentation in 2007.

Security Interest - Depository Pledge Agreement (05-1)

The depository pledge agreement between the County, Minnwest Bank M.V., and Bremer Bank stated that the County is required to give notice of a failure, insolvency, or breach to the bank and wait at least three business days after the notice before the County can collect the collateral from the Custodian so the bank has time to cure the default. Minnesota statutes require collateral to be available to the County upon default of the financial institution.

Resolution

Minnwest and Bremer Bank have new wording for their pledge agreements that complies with the state statute.

Travel Claims/Disbursements (05-3)

Some travel claims did not have supporting documentation attached and were not itemized.

Resolution

Travel claims reviewed during the 2007 audit were itemized and included supporting documentation.

Per Diem Payments (06-13)

A member of the County Board received a per diem for services on the canvassing board which did not comply with Minn. Stat. § 375.055, subd. 5.

Resolution

The County Board set a policy that complies with the statute, and the Board member repaid the per diem.

Claim Declaration on the Back of County Checks (06-14)

During 2006, Redwood County started using new laser checks that did not have the required declaration on the back as required by Minn. Stat. § 471.391, subd. 1.

Resolution

The County checks now have the required claim declaration printed on them.

Payments from Recorder's Compliance Fund (06-15)

County Commissioners authorized use of the County Recorder's Compliance Fund to purchase a new Human Resources software package.

Resolution

The expenditure was transferred from the Recorder's Compliance Fund to an administrative account.

Per Diem Policy and Payments (06-16)

County Board members were receiving per diem payments for activities that were not legally required, and the supporting documentation was not sufficient. There was no approval process for per diem payments by the full County Board.

Resolution

A procedure was implemented that requires sufficient documentation and approval by the full County Board for per diem payments.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS RESOLVED

Preparation of the Annual Financial Statements (04-3)

The County has not been preparing the annual financial statements.

Resolution

The 2007 financial statements were prepared by the Auditor-Treasurer's Office.

Out-of-State Travel (06-17)

An unauthorized per diem was paid for attending a conference out of state.

Resolution

The unauthorized per diem was repaid.

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

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

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

This year, the legislature enacted a new law, Minn. Stat. § 471.6175, intended to help local governments address their OPEB liability in at least three important ways:

- it allows governments to create both irrevocable and revocable OPEB trusts;
- it authorizes the use of a different list of permissible investments for both irrevocable and revocable OPEB trusts; and
- it also permits governments to invest OPEB trust assets with the State Board of Investment, bank trust departments, and certain insurance companies.

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

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

If applicable for Redwood County, GASB Statement 45 would be implemented for the year ended December 31, 2008.

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

Board of County Commissioners
Redwood County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Redwood County as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 14, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 99-1, 00-6, 05-4, 06-2, 06-5 through 06-7, and 06-10 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 99-1, 00-6, 06-2, 06-6, 06-7, and 06-10 to be material weaknesses.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, Redwood County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as items 05-2, 07-1, and 07-2.

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

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

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

/s/Rebecca Otto

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 14, 2008

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners
Redwood County

Compliance

We have audited the compliance of Redwood County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. Redwood County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Redwood County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

Internal Control Over Compliance

The management of Redwood County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Redwood County as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 14, 2008. Our audit was performed for the purpose of forming opinions on the County's basic financial statements. The accompanying

Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 14, 2008

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

Schedule 10

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

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	\$ 83,017
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for Food Stamp Program	10.561	6,269
Total U.S. Department of Agriculture		\$ 89,286
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 227,305
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	2,000
Total U.S. Department of Transportation		\$ 229,305
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services Temporary Assistance for Needy Families (TANF)	93.558	\$ 80,163
Child Care and Development Block Grant	93.575	1,981
Child Care Mandatory and Matching Funds	93.596	3,447
Child Welfare Services - State Grants	93.645	5,755
Foster Care - Title IV-E	93.658	79
Social Services Block Grant Title XX	93.667	147,052
Chafee Foster Care Independence Program	93.674	8,100
Block Grants for Community Mental Health Services	93.958	3,798
Passed Through Minnesota Department of Health Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	37,934
Temporary Assistance for Needy Families (TANF)	93.558	18,311
Maternal and Child Health Services Block Grant to the States	93.994	18,383
Total U.S. Department of Health and Human Services		\$ 325,003
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety Emergency Management Performance Grants	97.042	\$ 13,114
Total Federal Awards		\$ 656,708

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

Schedule 10
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by the County. The County's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting.
3. Pass-through grant numbers were not assigned by the pass-through agencies.
4. During 2007, the County did not pass any federal money to subrecipients.