

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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**REDWOOD COUNTY**  
**REDWOOD FALLS, MINNESOTA**

**YEAR ENDED DECEMBER 31, 2008**

## **Description of the Office of the State Auditor**

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

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

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

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

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

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

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

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

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

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**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

**Year Ended December 31, 2008**



**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  
2008**

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Commissioners		
1st District	Brian Kletscher, Vice Chair	January 2009
2nd District	John Schueller, Chair	January 2011
3rd District	Al Kokesch	January 2011
4th District	Bruce Tolzmann	January 2011
5th District	Eugene Short	January 2009
County Officers		
Elected		
Attorney	Patrick Rohland	January 2011
Auditor-Treasurer	Jean Price*	January 2011
District Court Judge	David W. Peterson	January 2011
Recorder	Joyce Anderson	January 2011
Sheriff	Richard Morris	January 2009
Appointed		
Assessor	Kathy Hillmer	Indefinite
Administrator	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	Martin Caraway	Indefinite
Human Services Director	Patrick Bruflat	Indefinite

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

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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, 2008, 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. 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 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, 2008, 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.

As discussed in Note 3.C. to the financial statements, during the year ended December 31, 2008, Redwood County implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

The Management's Discussion and Analysis and the required supplementary information listed in the table of contents 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 December 24, 2009, 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

December 24, 2009

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2008  
(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, 2008. 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 \$74,065,276, of which \$57,169,801 is invested in capital assets and \$4,386,021 is restricted to specific purposes. The \$12,509,454 remaining may be used to meet the County's ongoing obligations to citizens and creditors.

The County's net assets increased by \$1,241,589 for the year ended December 31, 2008. A large part of the increase is attributable to the County's investing in capital assets, net of accumulated depreciation.

The net cost of governmental activities for the current fiscal year was \$9,379,119. The net cost was funded by general revenues totaling \$10,620,708.

Fund balances of the governmental funds increased by \$3,939,808. Most of the increase was due to collecting more revenues than expenditures in the Road and Bridge Special Revenue Fund and the issuance of bonds for the renovation of the Government Center, remodeling of the Courthouse, and the purchase of equipment.

For the year ended December 31, 2008, the unreserved fund balance of the General Fund was \$3,491,744, or 52.9 percent, of the total General Fund expenditures for the year, a decrease of 0.6 percent.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This MD&A is intended to serve as an introduction to the basic financial statements. The basic financial statements consist of three parts: (1) government-wide financial statements, (2) fund 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 financial 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 balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. The County's assets exceeded liabilities by \$74,065,276 at the close of 2008. The largest portion of the net assets (77 percent) reflects its investment in capital assets (for example: land, buildings, equipment, and infrastructure such as roads and bridges). However, it should be noted that these assets are not available for future spending. Comparative data with 2007 is presented.

Governmental Activities Net Assets (in thousands)		
	2008	2007
Assets		
Current and other assets	\$ 21,530	\$ 18,480
Capital assets	60,402	56,856
Total Assets	\$ 81,932	\$ 75,336
Liabilities		
Long-term liabilities	\$ 6,107	\$ 1,272
Other liabilities	1,760	1,240
Total Liabilities	\$ 7,867	\$ 2,512
Net Assets		
Invested in capital assets, net of related debt	\$ 57,170	\$ 56,696
Restricted	4,386	3,487
Unrestricted	12,509	12,641
Total Net Assets	\$ 74,065	\$ 72,824

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 16.9 percent of the net assets.

## Governmental Activities

The County's activities increased net assets by 1.8 percent (\$72,823,687 for 2007 compared to \$74,065,276 for 2008). Key elements in this increase in net assets are as follows for 2008, with comparative data for 2007.

Governmental Activities Changes in Net Assets (in thousands)		
	2008	2007
Revenues		
Program revenues		
Charges for services	\$ 2,666	\$ 2,772
Operating grants and contributions	7,346	5,460
Capital grants and contributions	37	2,402
General revenues		
Property taxes	8,477	7,693
Other	2,143	2,614
Total Revenues	\$ 20,669	\$ 20,941
Expenses		
General government	\$ 3,379	\$ 2,672
Public safety	2,658	2,668
Highways	4,943	4,828
Sanitation	574	595
Human services	5,283	4,943
Health	1,370	1,215
Culture and recreation	367	366
Conservation of natural resources	705	858
Economic development	74	34
Interest	75	25
Total Expenses	\$ 19,428	\$ 18,204
Increase in Net Assets	\$ 1,241	\$ 2,737
Net Assets - January 1	72,824	70,087
Net Assets - December 31	\$ 74,065	\$ 72,824

Total revenues for the County were \$20,669,696, while total expenses were \$19,428,107. This reflects a \$1,241,589 increase in net assets for the year ended December 31, 2008.

The cost of all governmental activities this year was \$19,428,107. 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 \$8,476,807, because some of the cost was paid by those who directly benefited from the programs (\$2,665,728) or by other governments and

organizations that subsidized certain programs with grants and contributions (\$7,383,260). 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.

<b>Governmental Activities</b> <b>(in thousands)</b>		
	<b>Total Cost of Services 2008</b>	<b>Net Cost of Services 2008</b>
Human services	\$ 5,283	\$ 2,630
Highways and streets	4,943	452
General government	3,379	2,757
Public safety	2,658	2,222
Health	1,370	610
All others	1,795	708
Totals	<u>\$ 19,428</u>	<u>\$ 9,379</u>

## **FINANCIAL ANALYSIS OF THE GOVERNMENT’S FUNDS**

### **Governmental Funds**

The focus of the County’s governmental funds is to provide information on short-term inflows, outflows, and the balances left at year-end that are available for spending. Such information is useful in assessing the County’s financing requirements. In particular, 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 \$17,951,268, an increase of \$3,939,808 in comparison with the prior year. Of the combined ending fund balances, \$12,598,696 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 \$3,491,744. As a measure of the General Fund’s liquidity, it may be useful to compare unreserved fund balance to total expenditures. The General Fund unreserved fund balance represents 52.9 percent of total General Fund expenditures. During 2008, the ending fund balance increased by \$100,767, primarily due to the County receiving \$41,580 more in revenue than expected.

The Road and Bridge Special Revenue Fund had an unreserved fund balance of \$1,400,100 at fiscal year-end, representing 20.5 percent of its annual expenditures. The ending fund balance increased \$390,321 during 2008, primarily due to more revenues being collected than expected.

The Human Services Special Revenue Fund had an unreserved fund balance of \$2,095,346 at fiscal year-end, representing 39.9 percent of its annual expenditures. The ending fund balance increased \$1,261 during 2008, primarily due to expenditures being under budget.

The Public Health Service Special Revenue Fund had an unreserved fund balance of \$1,297,913 at fiscal year-end, representing 96.7 percent of its annual expenditures. The ending balance increased \$75,727 during 2008, primarily due to expenditures being under budget.

The Solid Waste Special Revenue Fund had an unreserved fund balance of \$903,950 at fiscal year-end, representing 153.8 percent of its annual expenditures. The ending fund balance increased \$126,314 during 2008, primarily due to more revenues being collected than expected.

The Building Special Revenue Fund's ending fund balance increased by \$3,192,959 during 2008, primarily due to the issuance of bonds for the renovation of the Government Center, remodeling of the Courthouse, and the purchase of equipment.

The Ditch Special Revenue Fund had an unreserved fund balance of \$2,996,603 at fiscal year-end. The ending fund balance increased \$43,119 during 2008, primarily due to the actual revenues exceeding budgeted revenues.

The Debt Service Fund had a reserved fund balance of \$9,340 at fiscal year-end. The Debt Service Fund was created in 2008 due to the issuance of bonds for the renovation of the Government Center, remodeling of the Courthouse, and the purchase of equipment.

### **General Fund Budgetary Highlights**

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

The actual charges to appropriations (expenditures) were \$21,600 above the final budget amounts. One of the most significant positive variances (\$124,313) occurred in Computer, where the costs to operate were less than anticipated, resulting in a 35 percent reduction in expected expenditures. Reasons for other significant variances of actual expenditures from final budget include lower than anticipated water quality loans issued and overall departmental staff changes.

On the other hand, resources available for appropriation were also \$41,580 above the final budgeted amount. Greater than expected collections for miscellaneous items 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, 2008, totaled \$60,402,584 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than building, equipment, and infrastructure. The investment in capital assets increased \$3,546,338, or 6.2 percent, from the previous year. The major capital asset events were:

Construction of highways and streets	\$	2,423,388
Construction in progress		1,700,868

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

	2008	2007
Land	\$ 1,763	\$ 1,726
Infrastructure	51,566	49,142
Buildings	2,362	2,440
Improvements other than building	184	-
Machinery and equipment	2,254	2,138
Construction in progress	2,274	1,410
Totals	<u>\$ 60,403</u>	<u>\$ 56,856</u>

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

### Long-Term Debt

The County has a net debt at December 31, 2008, of \$4,785,070. The debt is for financing the acquisition of capital equipment in the Sheriff's Department (5-year term with final payment December 1, 2009); the renovation of the Government Center, and remodeling of the Courthouse (15-year term with final payment February 1, 2024); the purchase of equipment (5-year term with final payment February 1, 2014); and lease agreements for financing squad cars for the Sheriff's Department.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

The County's elected and appointed officials considered many factors when setting the 2009 budget, tax rates, and fees that will be charged for the year.

- The average unemployment rate for Redwood County at the end of 2008 was 6.4 percent. This was slightly below the state unemployment rate of 6.8 percent and shows an increase from the County's 5.2 percent rate of one year ago. This could impact the level of services requested by County residents. The 2008 County population is estimated at 15,680, a decrease of 1,135 from the 2000 census of 16,815.
- Mortgage interest rates have risen slightly during 2008, resulting in a reduced volume of mortgage refinancing.
- At the end of 2008, Redwood County set its 2009 revenue and expenditure budgets.
- The property tax levy for the County increased 14 percent (\$1,398,529) from 2008. With the state aid increasing by \$81,152, the net tax levy (the amount spread to taxpayers) increased 14.2 percent from 2008.

## **REQUESTS FOR INFORMATION**

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



## **BASIC FINANCIAL STATEMENTS**

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## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET ASSETS  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2008**

**Assets**

**Current assets**

Cash and pooled investments	\$ 12,440,603
Investments	6,001,087
Taxes receivable	
Prior - net	126,942
Special assessments receivable	
Current - net	72,532
Prior - net	36,530
Noncurrent - net	402,090
Accounts receivable - net	192,130
Accrued interest receivable	54,387
Due from other governments	1,739,335
Loans receivable	127,521
Inventories	223,616
Prepaid items	20,895

**Noncurrent assets**

Deferred charges	49,242
Long-term receivables	42,886

**Capital assets**

Non-depreciable	4,036,949
Depreciable - net of accumulated depreciation	56,365,635

**Total Assets**

**\$ 81,932,380**

**Liabilities**

**Current liabilities**

Accounts payable	\$ 402,845
Salaries payable	362,088
Contracts payable	395,610
Due to other governments	293,681
Accrued interest payable	14,463
Deferred revenue - unearned	43,867
Compensated absences payable - current	58,497
Other postemployment benefits payable - current	19,850
Notes payable - current	80,000
Capital leases payable - current	41,383
Loans payable - current	47,717

**Noncurrent liabilities**

Compensated absences payable	874,466
Other postemployment benefits payable	124,971
Capital leases payable	58,064
General obligation bonds payable - net	3,891,383
General obligation certificates of indebtedness payable - net	714,240
Loans payable	443,979

**Total Liabilities**

**\$ 7,867,104**

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

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**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

***EXHIBIT 1  
(Continued)***

**STATEMENT OF NET ASSETS  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2008**

**Net Assets**

Invested in capital assets - net of related debt	\$ 57,169,801
Restricted for	
Public safety	353,695
Highways and streets	1,769,855
Equipment	80,000
Capital projects	1,887,367
Other purposes	295,104
Unrestricted	<u>12,509,454</u>
 <b>Total Net Assets</b>	 <b><u><u>\$ 74,065,276</u></u></b>

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

**EXHIBIT 2**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2008**

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	
	Expenses				
<b><u>Functions/Programs</u></b>					
<b>Primary government</b>					
<b>Governmental activities</b>					
General government	\$ 3,378,878	\$ 553,475	\$ 68,228	\$ -	\$ (2,757,175)
Public safety	2,658,095	157,622	278,823	-	(2,221,650)
Highways and streets	4,942,364	118,547	4,335,465	36,833	(451,519)
Sanitation	573,980	629,682	60,000	-	115,702
Human services	5,283,186	500,449	2,152,484	-	(2,630,253)
Health	1,370,099	436,378	323,476	-	(610,245)
Culture and recreation	367,121	54,207	84,084	-	(228,830)
Conservation of natural resources	705,309	215,368	43,867	-	(446,074)
Economic development	73,728	-	-	-	(73,728)
Interest	75,347	-	-	-	(75,347)
<b>Total Governmental Activities</b>	<b>\$ 19,428,107</b>	<b>\$ 2,665,728</b>	<b>\$ 7,346,427</b>	<b>\$ 36,833</b>	<b>\$ (9,379,119)</b>
<b>General Revenues</b>					
Property taxes				\$	8,476,807
Other taxes					14,716
Payments in lieu of tax					56,908
Grants and contributions not restricted to specific programs					1,426,754
Investment income					454,326
Miscellaneous					191,197
<b>Total general revenues</b>				<b>\$</b>	<b>10,620,708</b>
<b>Change in net assets</b>				<b>\$</b>	<b>1,241,589</b>
<b>Net Assets - Beginning</b>					<b>72,823,687</b>
<b>Net Assets - Ending</b>				<b>\$</b>	<b>74,065,276</b>

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## **FUND FINANCIAL STATEMENTS**

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## **GOVERNMENTAL FUNDS**

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2008**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 2,127,912	\$ 2,038,956	\$ 2,013,505
Petty cash and change funds	3,850	-	-
Undistributed cash in agency fund	106,029	23,312	43,183
Investments	2,489,877	-	-
Taxes receivable			
Delinquent	62,306	18,915	34,992
Special assessments receivable			
Delinquent	2,899	-	-
Noncurrent	389,180	-	-
Accounts receivable	3,568	2,207	157,140
Accrued interest receivable	18,252	-	-
Due from other funds	453	14,939	358
Due from other governments	47,815	1,352,121	258,596
Loans receivable	125,000	-	-
Inventories	-	223,616	-
Prepaid items	3,990	14,912	1,761
<b>Total Assets</b>	<b><u>\$ 5,381,131</u></b>	<b><u>\$ 3,688,978</u></b>	<b><u>\$ 2,509,535</u></b>

**EXHIBIT 3**

<b>Public Health Services</b>	<b>Solid Waste</b>	<b>Building</b>	<b>Ditch</b>	<b>Debt Service</b>	<b>Total</b>
\$ 1,265,331	\$ 365,788	\$ 4,282,235	\$ 123,668	\$ 9,340	\$ 12,226,735
200	30	-	-	-	4,080
10,087	19,704	3,525	3,948	-	209,788
-	580,940	-	2,930,270	-	6,001,087
8,054	-	2,675	-	-	126,942
-	32,600	-	1,031	-	36,530
-	-	-	85,442	-	474,622
20,093	9,122	-	-	-	192,130
-	2,346	-	33,789	-	54,387
2,138	-	-	20	-	17,908
60,521	-	-	20,282	-	1,739,335
-	-	45,407	-	-	170,407
-	-	-	-	-	223,616
232	-	-	-	-	20,895
<b>\$ 1,366,656</b>	<b>\$ 1,010,530</b>	<b>\$ 4,333,842</b>	<b>\$ 3,198,450</b>	<b>\$ 9,340</b>	<b>\$ 21,498,462</b>

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2008**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>
<b><u>Liabilities and Fund Balances</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 94,509	\$ 54,202	\$ 203,426
Salaries payable	150,819	64,864	89,685
Contracts payable	-	97,929	-
Due to other funds	16,855	284	114
Due to other governments	161,692	2,925	65,599
Deferred revenue - unavailable	598,578	1,204,195	53,604
Deferred revenue - unearned	43,867	-	-
<b>Total Liabilities</b>	<b><u>\$ 1,066,320</u></b>	<b><u>\$ 1,424,399</u></b>	<b><u>\$ 412,428</u></b>
<b>Fund Balances</b>			
Reserved for			
Inventories	\$ -	\$ 223,616	\$ -
Loans receivable	-	-	-
Prepaid items	3,990	14,912	1,761
Missing heirs	1,552	-	-
VSO grants	14,435	-	-
Recorder's technology fund	91,786	-	-
Recorder's equipment	98,284	-	-
Enhanced 911	329,308	-	-
Sheriff's contingency	444	-	-
Sheriff's forfeited property	17,169	-	-
Sheriff's DWI assessment	4,670	-	-
Attorney's forfeited property	2,104	-	-
Victim assistance	22,863	-	-
Gun permit fees	9,899	-	-
Highway allotments	-	625,951	-
Septic/sewer loans	102,516	-	-
Law library	9,718	-	-
Encumbrances	-	-	-
Election equipment grant	34,329	-	-
Capital equipment	80,000	-	-
Unspent grant monies	-	-	-
2008A G.O. Bond	-	-	-
2008B G.O. Equipment Certificate	-	-	-
Unreserved			
Designated for future expenditures	2,958,793	1,178,080	1,846,290
Designated for compensated absences	319,913	202,670	249,056
Designated for postemployment benefits	208,263	19,350	-
Designated for future loans	-	-	-
Designated for VEBA health plan	4,775	-	-
<b>Total Fund Balances</b>	<b><u>\$ 4,314,811</u></b>	<b><u>\$ 2,264,579</u></b>	<b><u>\$ 2,097,107</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 5,381,131</u></b>	<b><u>\$ 3,688,978</u></b>	<b><u>\$ 2,509,535</u></b>

**EXHIBIT 3**  
**(Continued)**

<u>Public Health Services</u>	<u>Solid Waste</u>	<u>Building</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
\$ 6,417	\$ 15,288	\$ 11,753	\$ 17,250	\$ -	\$ 402,845
42,895	10,680	-	3,145	-	362,088
-	-	297,681	-	-	395,610
64	591	-	-	-	17,908
1,547	75	-	61,843	-	293,681
17,588	34,946	2,675	119,609	-	2,031,195
-	-	-	-	-	43,867
<u>\$ 68,511</u>	<u>\$ 61,580</u>	<u>\$ 312,109</u>	<u>\$ 201,847</u>	<u>\$ -</u>	<u>\$ 3,547,194</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 223,616
-	-	45,407	-	-	45,407
232	-	-	-	-	20,895
-	-	-	-	-	1,552
-	-	-	-	-	14,435
-	-	-	-	-	91,786
-	-	-	-	-	98,284
-	-	-	-	-	329,308
-	-	-	-	-	444
-	-	-	-	-	17,169
-	-	-	-	-	4,670
-	-	-	-	-	2,104
-	-	-	-	-	22,863
-	-	-	-	-	9,899
-	-	-	-	-	625,951
-	-	-	-	-	102,516
-	-	-	-	-	9,718
-	-	2,069,581	-	-	2,069,581
-	-	-	-	-	34,329
-	-	-	-	-	80,000
-	45,000	-	-	-	45,000
-	-	926,649	-	8,116	934,765
-	-	567,056	-	1,224	568,280
1,178,157	879,001	413,040	2,156,112	-	10,609,473
119,756	24,949	-	16,619	-	932,963
-	-	-	-	-	227,613
-	-	-	823,872	-	823,872
-	-	-	-	-	4,775
<u>\$ 1,298,145</u>	<u>\$ 948,950</u>	<u>\$ 4,021,733</u>	<u>\$ 2,996,603</u>	<u>\$ 9,340</u>	<u>\$ 17,951,268</u>
<u>\$ 1,366,656</u>	<u>\$ 1,010,530</u>	<u>\$ 4,333,842</u>	<u>\$ 3,198,450</u>	<u>\$ 9,340</u>	<u>\$ 21,498,462</u>

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**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

***EXHIBIT 4***

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2008**

<b>Fund balance - total governmental funds (Exhibit 3)</b>	<b>\$ 17,951,268</b>
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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.	60,402,584
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Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	2,031,195
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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	\$ (800,000)	
Bonds payable	(3,920,000)	
Leases payable	(99,447)	
Other postemployment benefits	(144,821)	
Compensated absences	(932,963)	
Loans payable	(491,696)	
Deferred debt issuance charges	49,242	
Unamortized discount on notes	34,377	
Accrued interest payable	(14,463)	
	(6,319,771)	(6,319,771)

<b>Net Assets of Governmental Activities (Exhibit 1)</b>	<b>\$ <u>74,065,276</u></b>
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**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>
<b>Revenues</b>			
Taxes	\$ 4,210,101	\$ 1,220,949	\$ 2,250,491
Special assessments	86,566	-	-
Licenses and permits	30,496	-	-
Intergovernmental	1,250,255	5,849,152	2,498,445
Charges for services	606,117	48,495	256,252
Gifts and contributions	6,795	-	-
Investment earnings	225,362	57,661	-
Miscellaneous	260,503	70,052	244,197
<b>Total Revenues</b>	<b><u>\$ 6,676,195</u></b>	<b><u>\$ 7,246,309</u></b>	<b><u>\$ 5,249,385</u></b>
<b>Expenditures</b>			
<b>Current</b>			
General government	\$ 2,778,257	\$ -	\$ -
Public safety	2,752,717	-	-
Highways and streets	-	6,481,430	-
Sanitation	-	-	-
Human services	-	-	5,248,124
Health	-	-	-
Culture and recreation	248,855	-	-
Conservation of natural resources	401,869	-	-
Economic development	73,728	-	-
<b>Intergovernmental</b>	104,931	342,371	-
<b>Debt service</b>			
Principal	181,804	-	-
Interest	58,003	-	-
Bond issuance costs	-	-	-
Administrative charges	432	-	-
<b>Total Expenditures</b>	<b><u>\$ 6,600,596</u></b>	<b><u>\$ 6,823,801</u></b>	<b><u>\$ 5,248,124</u></b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b><u>\$ 75,599</u></b>	<b><u>\$ 422,508</u></b>	<b><u>\$ 1,261</u></b>
<b>Other Financing Sources (Uses)</b>			
Transfers in	\$ -	\$ -	\$ -
Transfers out	(19,691)	-	-
Capital lease/installment purchase	20,945	-	-
Loans issued	23,772	-	-
Bonds issued	-	-	-
Discount on bonds	-	-	-
Proceeds from the sale of capital assets	142	-	-
Equipment contribution	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b><u>\$ 25,168</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>
<b>Net Change in Fund Balance</b>	<b><u>\$ 100,767</u></b>	<b><u>\$ 422,508</u></b>	<b><u>\$ 1,261</u></b>
<b>Fund Balance - January 1</b>	<b>4,214,044</b>	<b>1,874,258</b>	<b>2,095,846</b>
<b>Increase (decrease) in reserved for inventories</b>	<b><u>-</u></b>	<b><u>(32,187)</u></b>	<b><u>-</u></b>
<b>Fund Balance - December 31</b>	<b><u>\$ 4,314,811</u></b>	<b><u>\$ 2,264,579</u></b>	<b><u>\$ 2,097,107</u></b>

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

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**EXHIBIT 5**

<b>Public Health Services</b>	<b>Solid Waste</b>	<b>Building</b>	<b>Ditch</b>	<b>Debt Service</b>	<b>Total</b>
\$ 539,222	\$ -	\$ 254,675	\$ -	\$ -	\$ 8,475,438
-	356,082	-	186,628	-	629,276
-	1,050	-	-	-	31,546
410,223	55,005	40,777	183	-	10,104,040
430,182	-	1,200	-	-	1,342,246
1,135	-	-	-	-	7,930
32,702	31,399	9,635	145,596	9,340	511,695
4,323	265,607	79,708	6,310	-	930,700
<b>\$ 1,417,787</b>	<b>\$ 709,143</b>	<b>\$ 385,995</b>	<b>\$ 338,717</b>	<b>\$ 9,340</b>	<b>\$ 22,032,871</b>
\$ -	\$ -	\$ 1,771,090	\$ -	\$ -	\$ 4,549,347
-	-	-	-	-	2,752,717
-	-	-	-	-	6,481,430
-	587,829	-	-	-	587,829
-	-	-	-	-	5,248,124
1,342,060	-	-	-	-	1,342,060
-	-	-	-	-	248,855
-	-	-	295,598	-	697,467
-	-	-	-	-	73,728
-	-	-	-	-	447,302
-	-	-	-	-	181,804
-	-	-	-	-	58,003
-	-	47,260	-	-	47,260
-	-	-	-	-	432
<b>\$ 1,342,060</b>	<b>\$ 587,829</b>	<b>\$ 1,818,350</b>	<b>\$ 295,598</b>	<b>\$ -</b>	<b>\$ 22,716,358</b>
<b>\$ 75,727</b>	<b>\$ 121,314</b>	<b>\$ (1,432,355)</b>	<b>\$ 43,119</b>	<b>\$ 9,340</b>	<b>\$ (683,487)</b>
\$ -	\$ -	\$ 19,691	\$ -	\$ -	\$ 19,691
-	-	-	-	-	(19,691)
-	-	-	-	-	20,945
-	-	-	-	-	23,772
-	-	4,640,000	-	-	4,640,000
-	-	(34,377)	-	-	(34,377)
-	-	-	-	-	142
-	5,000	-	-	-	5,000
<b>\$ -</b>	<b>\$ 5,000</b>	<b>\$ 4,625,314</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,655,482</b>
<b>\$ 75,727</b>	<b>\$ 126,314</b>	<b>\$ 3,192,959</b>	<b>\$ 43,119</b>	<b>\$ 9,340</b>	<b>\$ 3,971,995</b>
<b>1,222,418</b>	<b>822,636</b>	<b>828,774</b>	<b>2,953,484</b>	<b>-</b>	<b>14,011,460</b>
<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(32,187)</b>
<b>\$ 1,298,145</b>	<b>\$ 948,950</b>	<b>\$ 4,021,733</b>	<b>\$ 2,996,603</b>	<b>\$ 9,340</b>	<b>\$ 17,951,268</b>

**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, 2008**

**Net change in fund balance - total governmental funds (Exhibit 5) \$ 3,971,995**

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

In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.

Deferred revenue - December 31	\$ 2,031,195	
Deferred revenue - January 1	(3,398,112)	(1,366,917)

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	\$ 5,638,422	
Net book value of assets disposed of	(150,909)	
Current year depreciation	(1,941,175)	3,546,338

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	\$ 80,000	
Loans payable	46,777	
Leases payable	55,027	181,804
 New debt issued - net of discounts		
See Note 2.C.2. for more information		(4,783,869)
Bond issuance costs		47,260

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	\$ (14,103)	
Change in compensated absences	(161,102)	
Change in other postemployment benefits	(144,821)	
Change in inventories	(32,187)	
Amortization of discounts and deferred issuance charges	(2,809)	(355,022)

**Change in Net Assets of Governmental Activities (Exhibit 2) \$ 1,241,589**

## **FIDUCIARY FUNDS**

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**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

***EXHIBIT 7***

**STATEMENT OF FIDUCIARY NET ASSETS  
AGENCY FUND  
DECEMBER 31, 2008**

**Assets**

Cash and pooled investments	<b><u>\$ 377,897</u></b>
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**Liabilities**

Accounts payable	\$ 100,791
Due to other governments	<u>277,106</u>

<b>Total Liabilities</b>	<b><u>\$ 377,897</u></b>
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**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008**

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**1. Summary of Significant Accounting Policies**

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2008. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

**A. Financial Reporting Entity**

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

**Blended Component Unit**

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

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

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

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

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

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

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

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

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

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

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

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

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

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor-Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2008, 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 2008 were \$121,215.

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

2. Receivables and Payables

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

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

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

All receivables are shown net of an allowance for uncollectibles.

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

3. Inventories and Prepaid Items

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

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

4. Capital Assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Capital Assets (Continued)

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

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

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

5. Compensated Absences

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

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

6. Deferred Revenue (Continued)

	<u>Unavailable</u>
Delinquent property taxes	\$ 126,942
Delinquent and noncurrent special assessments	511,152
Loans receivable	125,000
Interest on investments	49,563
Receivables that do not provide current financial resources	<u>1,218,538</u>
Total Deferred Revenues	<u>\$ 2,031,195</u>

7. Long-Term Obligations

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

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

8. Fund Equity

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



**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

9. Use of Estimates

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

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 12,440,603
Investments	6,001,087
Statement of fiduciary net assets	
Cash and pooled investments	<u>377,897</u>
Total Cash and Investments	<u>\$ 18,819,587</u>
Deposits	
Checking	\$ (78,558)
Money market savings	1,259,050
Certificates of deposit	6,001,087
Invested in MAGIC Fund	11,229,003
Invested in mutual funds	188,417
Invested in repurchase agreement	216,508
Petty cash and change funds	<u>4,080</u>
Total Deposits, Cash on Hand, and Investments	<u>\$ 18,819,587</u>

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better or revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution 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, 2008, the County's deposits were not exposed to custodial credit risk.

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers’ acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities 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, 2008, the County's investments were not exposed to custodial credit risk.

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

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

The following table presents the County's cash and investment balances at December 31, 2008, 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	
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	N/A	N/A	\$ 11,229,003
Federated Prime Obligations Fund	N/R	N/A	<5%	N/A	188,417
Total investment pools/mutual funds					\$ 11,417,420
Repurchase agreement	N/A	N/A	<5%	N/A	216,508
Total investments					\$ 11,633,928
Checking					(78,558)
Savings					1,259,050
Certificates of deposit					6,001,087
Petty cash					4,080
Total Cash and Investments					\$ 18,819,587

N/A - Not Applicable

N/R - Not Rated

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

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

2. Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 436,148	\$ 9,000	\$ -	\$ 445,148
Right-of-way	1,289,523	28,732	-	1,318,255
Construction in progress	1,409,928	1,700,868	837,250	2,273,546
Total capital assets not depreciated	\$ 3,135,599	\$ 1,738,600	\$ 837,250	\$ 4,036,949
Capital assets depreciated				
Buildings	\$ 5,660,265	\$ 38,090	\$ -	\$ 5,698,355
Improvements other than building	-	191,209	-	191,209
Machinery and equipment	6,373,449	819,659	292,169	6,900,939
Infrastructure	62,928,934	3,688,114	-	66,617,048
Total capital assets depreciated	\$ 74,962,648	\$ 4,737,072	\$ 292,169	\$ 79,407,551
Less: accumulated depreciation for				
Buildings	\$ 3,220,376	\$ 116,286	\$ -	\$ 3,336,662
Improvements other than building	-	7,413	-	7,413
Machinery and equipment	4,235,006	552,750	141,260	4,646,496
Infrastructure	13,786,619	1,264,726	-	15,051,345
Total accumulated depreciation	\$ 21,242,001	\$ 1,941,175	\$ 141,260	\$ 23,041,916
Total capital assets depreciated, net	\$ 53,720,647	\$ 2,795,897	\$ 150,909	\$ 56,365,635
Governmental Activities Capital Assets, Net	\$ 56,856,246	\$ 4,534,497	\$ 988,159	\$ 60,402,584

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

General government	\$ 153,964
Public safety	176,906
Highways and streets, including depreciation of infrastructure assets	1,556,116
Sanitation	27,037
Human services	5,318
Health	7,805
Culture and recreation	11,356
Conservation of natural resources	2,673
Total Depreciation Expense - Governmental Activities	\$ 1,941,175

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

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2. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

The composition of interfund balances as of December 31, 2008, is as follows:

Receivable Fund	Payable Fund	Amount
General	Human Services	\$ 39
	Solid Waste	130
	Road and Bridge	284
Total due to General Fund		\$ 453
Ditch	General	\$ 20
Human Services	General	\$ 358
Road and Bridge	General	\$ 14,414
	Solid Waste	461
	Public Health Services	64
Total due to Road and Bridge Fund		\$ 14,939
Public Health Services	General	\$ 2,063
	Human Services	75
Total due to Public Health Services Fund		\$ 2,138
Total Due To/From Other Funds		\$ 17,908

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, 2008, consisted of the following:

Transfer to Building Fund from General Fund	<u>\$ 19,691</u>	Provide funding
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**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Construction Commitments

The government has active construction projects as of December 31, 2008. The projects include the following:

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Roads and bridges	\$ 662,158	\$ 1,658,518
Building projects	1,004,730	2,069,581

2. Long-Term Debt

Loans Payable

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

<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, 2008</u>
Clean water loans					
Cottonwood River	2017	\$ 21,245	2.00	\$ 423,140	\$ 279,343
Redwood River	2017	6,326	2.00	123,047	103,737
Redwood River TMDL	-	-	-	31,594	31,594
Middle Minnesota	-	-	-	8,000	8,000
Cottonwood River Watershed	-	-	-	69,022	69,022
Total					<u>\$ 491,696</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**

2. Detailed Notes on All Funds

C. Liabilities

2. Long-Term Debt (Continued)

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

Type of Indebtedness	Final Maturity	Installment Amount	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2008
2005 General Obligation Capital Notes, Series 2005A	2009	\$65,000 - \$80,000	2.05 - 2.85	<u>\$ 375,000</u>	<u>\$ 80,000</u>
2008 General Obligation Improvement Bond, Series 2008A	2024	\$170,000 - \$355,000	3.00 - 4.50	<u>\$ 3,920,000</u>	\$ 3,920,000
Less: unamortized discount					<u>(28,617)</u>
Improvement Bond					<u>\$ 3,891,383</u>
2008 General Obligation Certificate of Indebtedness, Series 2008B	2014	\$130,000 - \$155,000	2.50 - 3.40	<u>\$ 720,000</u>	\$ 720,000
Less: unamortized discount					<u>(5,760)</u>
Certificate of Indebtedness					<u>\$ 714,240</u>
Total General Obligation Bonds, Certificates, and Notes, Net					<u>\$ 4,685,623</u>

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Debt Service Requirements

Debt service requirements at December 31, 2008, were as follows:

Year Ending December 31	General Obligation Bonds, Certificates of Indebtedness, and Capital Notes	
	Principal	Interest
2009	\$ 80,000	\$ 116,465
2010	300,000	167,103
2011	345,000	157,928
2012	355,000	147,602
2013	370,000	136,577
2014 - 2018	1,380,000	528,423
2019 - 2023	1,535,000	251,096
2024	355,000	7,987
Total	<u>\$ 4,720,000</u>	<u>\$ 1,513,181</u>

  

Year Ending December 31	Loans Payable	
	Principal	Interest
2009	\$ 47,717	\$ 7,424
2010	48,677	6,465
2011	49,655	5,487
2012	50,653	4,489
2013	46,631	3,471
2014 - 2017	139,747	5,552
Total	<u>\$ 383,080</u>	<u>\$ 32,888</u>

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

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Capital Leases

The County has entered into lease agreements as lessee for financing the acquisition of squad cars for the Sheriff's Department. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. These capital leases consist of the following at December 31, 2008:

<u>Lease</u>	<u>Final Maturity</u>	<u>Installments</u>	<u>Payment Amount</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2008</u>
2008 Crown Victoria	2012	Monthly	\$ 859	\$ 20,945	\$ 19,441
2007 Crown Victoria	2011	Monthly	1,110	26,226	20,143
2007 Crown Victoria	2010	Monthly	930	20,356	13,850
2007 Crown Victoria	2010	Monthly	1,301	27,552	18,154
2007 Crown Victoria	2010	Monthly	1,004	20,356	13,628
2007 Crown Victoria	2010	Monthly	1,004	20,365	14,231
Total Capital Lease					<u>\$ 99,447</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2008, were as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2009	\$ 74,473
2010	55,218
2011	15,852
2012	<u>6,010</u>
Total minimum lease payments	\$ 151,553
Less: amount representing interest	<u>(52,106)</u>
Present Value of Minimum Lease Payments	<u>\$ 99,447</u>

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds and notes payable					
General obligation notes	\$ 160,000	\$ -	\$ 80,000	\$ 80,000	\$ 80,000
General obligation certificates	-	720,000	-	720,000	-
General obligation bond	-	3,920,000	-	3,920,000	-
Less: deferred amounts for issuance discounts	(826)	(34,377)	(826)	(34,377)	-
Total bonds and notes payable	\$ 159,174	\$ 4,605,623	\$ 79,174	\$ 4,685,623	\$ 80,000
Clean water loans payable	514,701	23,772	46,777	491,696	47,717
Compensated absences	771,861	161,102	-	932,963	58,497
Other postemployment benefits	-	175,246	30,425	144,821	19,850
Capital leases	-	154,474	55,027	99,447	41,383
Governmental Activities Long-Term Liabilities	<u>\$ 1,445,736</u>	<u>\$ 5,120,217</u>	<u>\$ 211,403</u>	<u>\$ 6,354,550</u>	<u>\$ 247,447</u>

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Redwood County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the 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.

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.

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

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3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund.

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. Normal retirement age is 55 for Public Employees Police and Fire Fund members and Public Employees Correctional Fund members, and either 65 or 66 (depending on date hired) for Public Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

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3. 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](http://www.mnpera.org); by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. 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 are required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members were required to contribute 8.6 percent of their annual covered salary in 2008. That rate increased to 9.4 percent in 2009. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2008 and 2009:

	<u>2008</u>	<u>2009</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.50	6.75
Public Employees Police and Fire Fund	12.90	14.10
Public Employees Correctional Fund	8.75	8.75

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

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3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County's contributions for the years ending December 31, 2008, 2007, and 2006, 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
2008	\$ 374,928	\$ 75,596	\$ 35,404
2007	349,566	72,964	34,814
2006	316,912	64,545	33,577

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

B. Defined Contribution Plan

Four employees of Redwood County are covered by the Public Employees Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA 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.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

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3. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2008, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 5,789	\$ 5,789
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent

C. Other Postemployment Benefits (OPEB)

Beginning in 2008, Redwood County implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

This statement required the County to calculate and record a net OPEB obligation at December 31, 2008. The net OPEB obligation is, in general, the cumulative difference between the actuarial required contribution and the actual contributions since January 1, 2008.

Plan Description

The County pays the health insurance for qualified retired employees and elected officials. Employees who retire between age 55 and 65 with 25 years of public service, and with at least 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, 2008, the County has seven eligible participants--four elected officials and three employees. The County finances the plan on a pay-as-you-go basis. During 2008, the County expended \$30,425 for these benefits.



**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

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3. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation

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

ARC	\$ 175,246
Interest on net OPEB obligation	-
Adjustment to ARC	-
	<hr/>
Annual OPEB cost (expense)	\$ 175,246
Contributions made	(30,425)
	<hr/>
Increase in net OPEB obligation	\$ 144,821
Net OPEB Obligation - Beginning of Year	-
	<hr/>
Net OPEB Obligation - End of Year	<u>\$ 144,821</u>

The County's annual OPEB cost for December 31, 2008, was \$175,246. The percentage of annual OPEB cost contributed to the plan was 17.4 percent, and the net OPEB obligation for 2008 was \$144,821. Trend information for the previous two years is not available at this time based on the implementation date of December 31, 2008.

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

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3. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB) (Continued)

Funded Status and Funding Progress

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

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

Actuarial Methods and Assumptions

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

In the January 1, 2008, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.0 percent investment rate of return (net of investment expenses), which is Redwood County's implicit rate of return on the General Fund. The annual health care cost trend is 9.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over eight years. Both rates included

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

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3. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

a 3.0 percent inflation assumption. The UAAL is being amortized over 30 years on a level dollar basis. The remaining amortization period at December 31, 2008, was 29 years.

4. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health and dental coverage; or natural disasters. To manage these risks, the County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties 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.

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 \$410,000 per claim in 2008 and \$430,000 per claim in 2009. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT. The Property and Casualty Division of MCIT is self-sustaining, and the County pays an annual premium to cover current and future losses. MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

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.

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, 2007 (the latest information available), were \$6,380,000, and notes payable were \$6,640,123. The Water System's net assets increased by \$6,920,615 in 2007. Complete financial information can be obtained at 305 West Whited Street, Jeffers, Minnesota 56145.

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Minnesota River Basin

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

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

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

During 2008, 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.

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.

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

The following is a summary of the Consortium Board's annual financial report for the year ended December 31, 2007 (the latest information available):

Total assets	\$ 1,683,591
Total liabilities	323,335
Total net assets	1,360,256
Total revenues	3,359,694
Total expenditures	2,947,615
Net change in net assets	412,079

The Consortium Board reported no long-term obligations at December 31, 2007.

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

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 COUNTY  
REDWOOD FALLS, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Redwood-Cottonwood Rivers Control Area

The Redwood-Cottonwood Rivers Control Area (RCRCA) promotes orderly water quality improvement and management within the boundaries of the watersheds of the Redwood and Cottonwood Rivers for the participating counties. The County contributed \$19,860 to the RCRCA in 2008.

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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, 2008**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Revenues</b>				
Taxes	\$ 3,713,600	\$ 4,260,437	\$ 4,210,101	\$ (50,336)
Special assessments	77,000	77,000	86,566	9,566
Licenses and permits	27,445	27,445	30,496	3,051
Intergovernmental	1,127,388	1,174,388	1,250,255	75,867
Charges for services	613,990	613,990	606,117	(7,873)
Gifts and contributions	3,000	3,000	6,795	3,795
Investment earnings	280,000	280,000	225,362	(54,638)
Miscellaneous	198,355	198,355	260,503	62,148
<b>Total Revenues</b>	<b>\$ 6,040,778</b>	<b>\$ 6,634,615</b>	<b>\$ 6,676,195</b>	<b>\$ 41,580</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 248,373	\$ 248,373	\$ 236,333	\$ 12,040
Courts	-	-	3,224	(3,224)
Law library	-	-	26,690	(26,690)
County administration	244,700	244,700	311,660	(66,960)
Administrator	236,605	236,605	226,531	10,074
Auditor-Treasurer	320,283	320,283	269,382	50,901
License center	132,255	132,255	130,340	1,915
Assessor	277,873	277,873	266,337	11,536
Elections	54,600	54,600	34,009	20,591
Computer	352,750	352,750	228,437	124,313
Attorney	325,913	325,913	307,448	18,465
Recorder	275,857	275,857	292,556	(16,699)
Buildings and plant	248,070	248,070	253,590	(5,520)
Veterans service officer	134,218	134,218	128,499	5,719
Other general government	27,500	27,500	63,221	(35,721)
<b>Total general government</b>	<b>\$ 2,878,997</b>	<b>\$ 2,878,997</b>	<b>\$ 2,778,257</b>	<b>\$ 100,740</b>
<b>Public safety</b>				
Sheriff	\$ 2,359,594	\$ 2,359,594	\$ 2,230,833	\$ 128,761
Coroner	10,000	10,000	16,121	(6,121)
E-911 system	38,000	38,000	113,287	(75,287)
Probation and parole	274,748	274,748	313,289	(38,541)
Emergency management	100,066	100,066	55,012	45,054
Other public safety	18,600	18,600	24,175	(5,575)
<b>Total public safety</b>	<b>\$ 2,801,008</b>	<b>\$ 2,801,008</b>	<b>\$ 2,752,717</b>	<b>\$ 48,291</b>

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

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**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

**Schedule 1  
(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Culture and recreation</b>				
Museum	\$ 3,200	\$ 3,200	\$ 2,297	\$ 903
Parks	111,178	111,178	115,624	(4,446)
Minnesota trails	40,000	40,000	84,084	(44,084)
Other	47,000	47,000	46,850	150
<b>Total culture and recreation</b>	<b>\$ 201,378</b>	<b>\$ 201,378</b>	<b>\$ 248,855</b>	<b>\$ (47,477)</b>
<b>Conservation of natural resources</b>				
Extension	\$ 92,113	\$ 92,113	\$ 91,118	\$ 995
Agricultural inspection	127,303	119,603	113,923	5,680
Water quality loan program	80,000	80,000	23,773	56,227
Other	172,766	172,766	173,055	(289)
<b>Total conservation of natural resources</b>	<b>\$ 472,182</b>	<b>\$ 464,482</b>	<b>\$ 401,869</b>	<b>\$ 62,613</b>
<b>Economic development</b>				
Other	\$ 47,500	\$ 55,200	\$ 73,728	\$ (18,528)
<b>Intergovernmental</b>				
Library	\$ 104,931	\$ 104,931	\$ 104,931	\$ -
<b>Debt service</b>				
Principal	\$ 69,700	\$ 69,700	\$ 181,804	\$ (112,104)
Interest	\$ 3,300	\$ 3,300	\$ 58,003	\$ (54,703)
Administrative (fiscal) charges	\$ -	\$ -	\$ 432	\$ (432)
<b>Total Expenditures</b>	<b>\$ 6,578,996</b>	<b>\$ 6,578,996</b>	<b>\$ 6,600,596</b>	<b>\$ (21,600)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (538,218)</b>	<b>\$ 55,619</b>	<b>\$ 75,599</b>	<b>\$ 19,980</b>

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

**Schedule 1  
(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>Other Financing Sources (Uses)</b>				
Transfers out	\$ -	\$ -	\$ (19,691)	\$ (19,691)
Capital lease/installment purchase	-	-	20,945	20,945
Loans issued	75,000	75,000	23,772	(51,228)
Proceeds from the sale of assets	-	-	142	142
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 75,000</b>	<b>\$ 75,000</b>	<b>\$ 25,168</b>	<b>\$ (49,832)</b>
<b>Net Change in Fund Balance</b>	<b>\$ (463,218)</b>	<b>\$ 130,619</b>	<b>\$ 100,767</b>	<b>\$ (29,852)</b>
<b>Fund Balance - January 1</b>	<b>4,214,044</b>	<b>4,214,044</b>	<b>4,214,044</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 3,750,826</b>	<b>\$ 4,344,663</b>	<b>\$ 4,314,811</b>	<b>\$ (29,852)</b>

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

**Schedule 2**

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Revenues</b>				
Taxes	\$ 1,320,618	\$ 1,320,618	\$ 1,220,949	\$ (99,669)
Intergovernmental	3,310,800	3,310,800	5,849,152	2,538,352
Charges for services	50,000	50,000	48,495	(1,505)
Investment earnings	50,000	50,000	57,661	7,661
Miscellaneous	90,000	90,000	70,052	(19,948)
<b>Total Revenues</b>	<b>\$ 4,821,418</b>	<b>\$ 4,821,418</b>	<b>\$ 7,246,309</b>	<b>\$ 2,424,891</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 497,072	\$ 497,072	\$ 445,926	\$ 51,146
Maintenance	1,709,484	1,709,484	1,440,981	268,503
Construction	2,190,117	2,190,117	3,926,685	(1,736,568)
Equipment and maintenance shops	867,327	867,327	667,838	199,489
<b>Total highways and streets</b>	<b>\$ 5,264,000</b>	<b>\$ 5,264,000</b>	<b>\$ 6,481,430</b>	<b>\$ (1,217,430)</b>
<b>Intergovernmental</b>				
Highways and streets	-	-	342,371	(342,371)
<b>Total Expenditures</b>	<b>\$ 5,264,000</b>	<b>\$ 5,264,000</b>	<b>\$ 6,823,801</b>	<b>\$ (1,559,801)</b>
<b>Net Change in Fund Balance</b>	<b>\$ (442,582)</b>	<b>\$ (442,582)</b>	<b>\$ 422,508</b>	<b>\$ 865,090</b>
<b>Fund Balance - January 1</b>	<b>1,874,258</b>	<b>1,874,258</b>	<b>1,874,258</b>	<b>-</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>-</b>	<b>(32,187)</b>	<b>(32,187)</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,431,676</b>	<b>\$ 1,431,676</b>	<b>\$ 2,264,579</b>	<b>\$ 832,903</b>

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

**Schedule 3**

**BUDGETARY COMPARISON SCHEDULE  
HUMAN SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Revenues</b>				
Taxes	\$ 2,643,754	\$ 2,643,754	\$ 2,250,491	\$ (393,263)
Intergovernmental	2,355,482	2,355,482	2,498,445	142,963
Charges for services	205,870	205,870	256,252	50,382
Miscellaneous	96,050	96,050	244,197	148,147
<b>Total Revenues</b>	<b>\$ 5,301,156</b>	<b>\$ 5,301,156</b>	<b>\$ 5,249,385</b>	<b>\$ (51,771)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 1,576,644	\$ 1,576,644	\$ 1,515,368	\$ 61,276
Social services	3,724,512	3,724,512	3,732,756	(8,244)
<b>Total Expenditures</b>	<b>\$ 5,301,156</b>	<b>\$ 5,301,156</b>	<b>\$ 5,248,124</b>	<b>\$ 53,032</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,261</b>	<b>\$ 1,261</b>
<b>Fund Balance - January 1</b>	<b>2,095,846</b>	<b>2,095,846</b>	<b>2,095,846</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,095,846</b>	<b>\$ 2,095,846</b>	<b>\$ 2,097,107</b>	<b>\$ 1,261</b>

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

**Schedule 4**

**BUDGETARY COMPARISON SCHEDULE  
PUBLIC HEALTH SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Revenues</b>				
Taxes	\$ 528,815	\$ 528,815	\$ 539,222	\$ 10,407
Intergovernmental	363,646	363,646	410,223	46,577
Charges for services	433,222	433,222	430,182	(3,040)
Gifts and contributions	1,000	1,000	1,135	135
Investment earnings	12,000	12,000	32,702	20,702
Miscellaneous	3,700	3,700	4,323	623
<b>Total Revenues</b>	<b>\$ 1,342,383</b>	<b>\$ 1,342,383</b>	<b>\$ 1,417,787</b>	<b>\$ 75,404</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Health</b>				
Nursing service	1,419,008	1,419,008	1,342,060	76,948
<b>Net Change in Fund Balance</b>	<b>\$ (76,625)</b>	<b>\$ (76,625)</b>	<b>\$ 75,727</b>	<b>\$ 152,352</b>
<b>Fund Balance - January 1</b>	<b>1,222,418</b>	<b>1,222,418</b>	<b>1,222,418</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,145,793</b>	<b>\$ 1,145,793</b>	<b>\$ 1,298,145</b>	<b>\$ 152,352</b>



**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

**Schedule 5**

**BUDGETARY COMPARISON SCHEDULE  
SOLID WASTE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Revenues</b>				
Special assessments	\$ 350,000	\$ 350,000	\$ 356,082	\$ 6,082
Licenses and permits	250	250	1,050	800
Intergovernmental	55,000	55,000	55,005	5
Investment earnings	30,000	30,000	31,399	1,399
Miscellaneous	171,040	171,040	265,607	94,567
<b>Total Revenues</b>	<b>\$ 606,290</b>	<b>\$ 606,290</b>	<b>\$ 709,143</b>	<b>\$ 102,853</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Sanitation</b>				
Solid waste	\$ 389,284	\$ 389,284	\$ 282,469	\$ 106,815
Recycling	242,000	242,000	216,819	25,181
Hazardous waste	10,400	10,400	40,940	(30,540)
Waste to energy	-	-	47,601	(47,601)
<b>Total Expenditures</b>	<b>\$ 641,684</b>	<b>\$ 641,684</b>	<b>\$ 587,829</b>	<b>\$ 53,855</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ (35,394)</b>	<b>\$ (35,394)</b>	<b>\$ 121,314</b>	<b>\$ 156,708</b>
<b>Other Financing Sources (Uses)</b>				
Equipment contribution	-	-	5,000	5,000
<b>Net Change in Fund Balance</b>	<b>\$ (35,394)</b>	<b>\$ (35,394)</b>	<b>\$ 126,314</b>	<b>\$ 161,708</b>
<b>Fund Balance - January 1</b>	<b>822,636</b>	<b>822,636</b>	<b>822,636</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 787,242</b>	<b>\$ 787,242</b>	<b>\$ 948,950</b>	<b>\$ 161,708</b>

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

**Schedule 6**

**BUDGETARY COMPARISON SCHEDULE  
BUILDING SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Revenues</b>				
Taxes	\$ 225,000	\$ 253,800	\$ 254,675	\$ 875
Intergovernmental	42,000	46,200	40,777	(5,423)
Charges for services	-	-	1,200	1,200
Investment earnings	40,000	40,000	9,635	(30,365)
Miscellaneous	63,500	63,500	79,708	16,208
<b>Total Revenues</b>	<b>\$ 370,500</b>	<b>\$ 403,500</b>	<b>\$ 385,995</b>	<b>\$ (17,505)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Buildings and plant	\$ 1,350,000	\$ 1,513,150	\$ 1,771,090	\$ (257,940)
<b>Debt service</b>				
Bond issuance costs	-	32,000	47,260	(15,260)
<b>Total Expenditures</b>	<b>\$ 1,350,000</b>	<b>\$ 1,545,150</b>	<b>\$ 1,818,350</b>	<b>\$ (273,200)</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ (979,500)</b>	<b>\$ (1,141,650)</b>	<b>\$ (1,432,355)</b>	<b>\$ (290,705)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ -	\$ -	\$ 19,691	\$ 19,691
Bonds issued	-	4,593,080	4,640,000	46,920
Discount on sale of bonds	-	-	(34,377)	(34,377)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ 4,593,080</b>	<b>\$ 4,625,314</b>	<b>\$ 32,234</b>
<b>Net Change in Fund Balance</b>	<b>\$ (979,500)</b>	<b>\$ 3,451,430</b>	<b>\$ 3,192,959</b>	<b>\$ (258,471)</b>
<b>Fund Balance - January 1</b>	<b>828,774</b>	<b>828,774</b>	<b>828,774</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ (150,726)</b>	<b>\$ 4,280,204</b>	<b>\$ 4,021,733</b>	<b>\$ (258,471)</b>

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

**Schedule 7**

**BUDGETARY COMPARISON SCHEDULE  
DITCH SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Revenues</b>				
Special assessments	\$ 105,000	\$ 105,000	\$ 186,628	\$ 81,628
Intergovernmental	183	183	183	-
Investment earnings	130,000	130,000	145,596	15,596
Miscellaneous	25,000	25,000	6,310	(18,690)
<b>Total Revenues</b>	<b>\$ 260,183</b>	<b>\$ 260,183</b>	<b>\$ 338,717</b>	<b>\$ 78,534</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Other	337,879	337,879	295,598	42,281
<b>Net Change in Fund Balance</b>	<b>\$ (77,696)</b>	<b>\$ (77,696)</b>	<b>\$ 43,119</b>	<b>\$ 120,815</b>
<b>Fund Balance - January 1</b>	<b>2,953,484</b>	<b>2,953,484</b>	<b>2,953,484</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,875,788</b>	<b>\$ 2,875,788</b>	<b>\$ 2,996,603</b>	<b>\$ 120,815</b>

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

**Schedule 8**

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS  
DECEMBER 31, 2008**

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

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2008**

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1. General Budget Policies

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

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

2. Budget Basis of Accounting

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

3. Excess of Expenditures Over Budget

<u>Fund</u>	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General	\$ 6,600,596	\$ 6,578,996	\$ 21,600
Road and Bridge Special Revenue	6,823,801	5,264,000	1,559,801
Building Special Revenue	1,805,807	1,545,150	260,657

4. Other Postemployment Benefits

Beginning in 2008, Redwood County implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Currently, only one year's worth of data is available. Future reports will provide additional trend analysis to meet the three-year funding status requirements as the information becomes available.

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## **SUPPLEMENTARY INFORMATION**

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**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

**Schedule 9**

**BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Investment earnings	\$ 9,340	\$ 9,340	\$ 9,340	\$ -
<b>Net Change in Fund Balance</b>	\$ 9,340	\$ 9,340	\$ 9,340	\$ -
<b>Fund Balance - January 1</b>	-	-	-	-
<b>Fund Balance - December 31</b>	\$ 9,340	\$ 9,340	\$ 9,340	\$ -

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

**Statement 1**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<b><u>FAMILY SERVICES COLLABORATIVE</u></b>				
<u>Assets</u>				
Cash and pooled investments	\$ 97,873	\$ 431,833	\$ 440,517	\$ 89,189
<u>Liabilities</u>				
Accounts payable	\$ 97,873	\$ 431,833	\$ 440,517	\$ 89,189
<b><u>SOCIAL SERVICES SPECIAL PROJECTS</u></b>				
<u>Assets</u>				
Cash and pooled investments	\$ 8,412	\$ 6,765	\$ 3,575	\$ 11,602
<u>Liabilities</u>				
Accounts payable	\$ 8,412	\$ 6,765	\$ 3,575	\$ 11,602
<b><u>STATE REVENUE</u></b>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 1,107,795	\$ 1,107,795	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 1,107,795	\$ 1,107,795	\$ -

**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, 2008**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 283,441	\$ 18,445,780	\$ 18,452,185	\$ 277,036
<b><u>Liabilities</u></b>				
Due to other governments	\$ 283,441	\$ 18,445,780	\$ 18,452,185	\$ 277,036
<b><u>FORFEITED TAX SALE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 290	\$ 220	\$ 70
<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 290	\$ 220	\$ 70
<b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 389,726	\$ 19,992,463	\$ 20,004,292	\$ 377,897
<b><u>Liabilities</u></b>				
Accounts payable	\$ 106,285	\$ 438,598	\$ 444,092	\$ 100,791
Due to other governments	283,441	19,553,865	19,560,200	277,106
<b>Total Liabilities</b>	<b>\$ 389,726</b>	<b>\$ 19,992,463</b>	<b>\$ 20,004,292</b>	<b>\$ 377,897</b>

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

**Schedule 10**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**Shared Revenue**

**State**

Highway users tax	\$ 5,648,386
County program aid	554,526
PERA rate reimbursement	27,660
Disparity reduction aid	45,022
Police aid	72,964
Enhanced 911	91,672
Market value credit	750,679
Casino credit	48,867

<b>Total Shared Revenue</b>	<b><u>\$ 7,239,776</u></b>
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**Reimbursement for Services**

Minnesota Department of Human Services	<b><u>\$ 209,465</u></b>
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**Payments**

**Local**

Payments in lieu of taxes	\$ 56,908
Local contributions	1,500

<b>Total Payments</b>	<b><u>\$ 58,408</u></b>
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**Grants**

**State**

Minnesota Department of Corrections	\$ 73,094
Health	118,388
Human Services	817,595
Natural Resources	84,084
Public Safety	12,559
Veterans Affairs	14,435
Water and Soil Resources Board	43,867
Pollution Control Agency	55,000
Peace Officer Standards and Training Board	4,005

<b>Total State</b>	<b><u>\$ 1,223,027</u></b>
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**Federal**

Department of Agriculture	\$ 178,793
Transportation	2,560
Health and Human Services	1,174,503
Homeland Security	17,508

<b>Total Federal</b>	<b><u>\$ 1,373,364</u></b>
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<b>Total State and Federal Grants</b>	<b><u>\$ 2,596,391</u></b>
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<b>Total Intergovernmental Revenue</b>	<b><u><u>\$ 10,104,040</u></u></b>
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**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

**Schedule 11**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**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*." None were 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:

Child Support Enforcement Title IV-D	CFDA #93.563
Medical Assistance	CFDA #93.778
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Redwood County was 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. Some of the offices or departments we have noted that do not have sufficient segregation of duties include the Recorder, Environmental Office, Sheriff, and Assessor.

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:
  - process cash disbursements,
  - make bank deposits, or
  - prepare billings.
- Individuals who process vouchers for payments should not also print or sign checks.

We recommend that County management try to segregate these duties within the accounting functions as much as possible. If it is not possible to segregate these duties, County management should continue to 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:**

*Due to the limited number of staff, we will make a recommendation to the board that Department Heads review any cash transactions that are prepared by a staff member in that department. We will also recommend that the board give the Administrator and Auditor/Treasurer the directive to randomly spot check cash transactions throughout the year in the departments.*

**06-5    Accounting Policies and Procedures Manual**

Previous reports have recommended that a comprehensive manual of accounting policies and procedures be developed and approved by the County Board. County management has shown substantial progress in documenting the County's policies and procedures in 2008. Of importance to the County's overall internal controls are written procedures covering the administration of the budgets; capital assets additions, deletions, and transfers; and the County's computer risk management.

We commend the County for its progress to date. We recommend that as part of its current policies and procedures, the County include management's administration of the budget; the additions, deletions, and transfers of capital assets; and computer risk management. We also recommend that upon completion of the policies and procedures manual, it be presented to the County Board for approval.

**Client's Response:**

*An accounting policies and procedures manual is currently being worked on. It will include management's administration of the budget, the additions, deletions, and transfers of capital assets, and computer risk management. Currently, we are hoping to have it board-approved towards the beginning of the 2010 year.*

**PREVIOUSLY REPORTED ITEMS RESOLVED**

**Annual Adopted Budget and Budget Policy (00-6)**

In the previous years, the County Board adopted a summarized budget at the fund level. This summary did not clearly document estimated revenue sources by fund or budgeted expenditures by fund, function, and department. In addition, the County Board had not developed and adopted a budget policy for management's administration of the County budget.

**Resolution**

In 2008, the Board approved a detailed budget for each fund, function, and department. A budget policy has been written and is included in the County's policy manual, but this manual has not yet been approved by the County Board. This portion of the comment has been combined with finding 06-5, Accounting Policies and Procedures Manual.

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

Canteen funds collected in May 2007 were not remitted to the County Auditor-Treasurer's Office until December 2007.

**Resolution**

During 2009, the Sheriff's Department improved the timeliness of its deposits with the Auditor-Treasurer's Office. The August 2009 canteen proceeds were deposited within the first five days of September 2009.

**Access to the Computer Systems - Passwords (06-2)**

Computer passwords were not changed on a regular basis, and the minimum allowed length of the password was shorter than recommended. Also, it was noted that two road and bridge employees shared the same username and password.

**Resolution**

Redwood County implemented a new policy that requires passwords to be changed every 180 days and also requires the use of a strong password that is longer in length and uses randomized characters. We also noted no sharing of usernames and passwords among County employees.

**Capital Assets Policies and Procedures (06-6)**

Redwood County has not included its policies and procedures relating to the addition and deletion of capital assets in its comprehensive manual. We noted the County is carrying a significant amount of fully depreciated assets on its books and had not performed a physical inventory of capital assets since 2003.

**Resolution**

The County's listing of capital assets includes assets that are fully depreciated; however, these assets are still in use by the County. In 2009, the County performed a physical inventory of capital assets. The finding relating to the County's policies and procedures for additions and deletions has not been resolved, but rather included in comment 06-5, Accounting Policies and Procedures.

**Computer Risk Management (06-7)**

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

**Resolution**

The County is in the process of updating its business continuity plan; however, since this has not been completed, this comment has been included in comment 06-5, Accounting Policies and Procedures.

**Adding New Vendors to the Accounting System (06-10)**

Internal controls over the process of adding a new vendor to the accounting system did not include a review by an employee independent of the process.

**Resolution**

Redwood County updated its process during 2008 whereby only certain individuals are allowed to add a new vendor. These individuals are independent of the invoice processing and approval. The list of vouchers to be paid is reviewed by the Auditor-Treasurer, the County Administrator, and the County Board prior to payment being issued.

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

None.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

**MINNESOTA LEGAL COMPLIANCE**

**PREVIOUSLY REPORTED ITEMS RESOLVED**

**Collateral Substitution - Depository Pledge Agreement (05-2)**

The depository pledge agreement allowed the financial institution to substitute collateral before giving notice to the government entity.

**Resolution**

The County has worked with its financial institution to change the wording of the depository pledge agreement to comply with Minn. Stat. § 118A.03, subd. 5.

**Performance Bonds (07-1)**

Performance bonds for two contracts that exceeded \$75,000 were not received before the work began, as required by Minn. Stat. § 574.26.

**Resolution**

The County has obtained the performance bonds for those contracts that exceed \$75,000 prior to the work beginning.

**Out-of-State Travel Policy (07-2)**

The County's out-of-state travel policy did not comply with Minn. Stat. § 471.661.

**Resolution**

County management has updated the County's out-of-state travel policy to comply with the applicable legal provisions. The County Board has formally adopted this policy.



REBECCA OTTO  
STATE AUDITOR

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

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, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 24, 2009. 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 and 06-5 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, we believe neither of the significant deficiencies described above is a material weakness.

#### 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 seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except for tax increment financing because Redwood County does not have any tax increment financing districts.

The results of our tests indicate that, for the items tested, Redwood County complied with the material terms and conditions of applicable legal provisions.

Redwood County's written responses to the significant deficiencies 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*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

December 24, 2009

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

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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, 2008. 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, 2008.

#### 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, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 24, 2009. 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

December 24, 2009

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**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

**Schedule 12**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 94,540
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	84,253
<b>Total U.S. Department of Agriculture</b>		<b>\$ 178,793</b>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	\$ 2,000
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	560
<b>Total U.S. Department of Transportation</b>		<b>\$ 2,560</b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Human Services		
Temporary Assistance for Needy Families (TANF)	93.558	\$ 126,826
Child Support Enforcement	93.563	463,139
Refugee and Entrant Assistance - State-Administered Programs	93.566	205
Child Care Cluster		
Child Care and Development Block Grant	93.575	6,864
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	1,379
Child Welfare Services - State Grants	93.645	12,762
Foster Care - Title IV-E	93.658	17,101
Social Services Block Grant	93.667	145,736
Chafee Foster Care Independence Program	93.674	12,842
Children's Health Insurance Program	93.767	222
Medical Assistance Program	93.778	296,878
Block Grants for Community Mental Health Services	93.958	4,353
Passed Through Minnesota Department of Health		
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	32,592
Temporary Assistance for Needy Families (TANF)	93.558	35,221
Maternal and Child Health Services Block Grant to the States	93.994	18,383
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 1,174,503</b>

**REDWOOD COUNTY  
REDWOOD FALLS, MINNESOTA**

**Schedule 12  
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Public Safety		
Emergency Management Performance Grants	97.042	\$ <u>17,508</u>
<b>Total Federal Awards</b>		\$ <u><u>1,373,364</u></u>

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 2008, the County did not pass any federal money to subrecipients.