

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA

YEAR ENDED DECEMBER 31, 2016

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 150 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 650 public pension funds; and

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

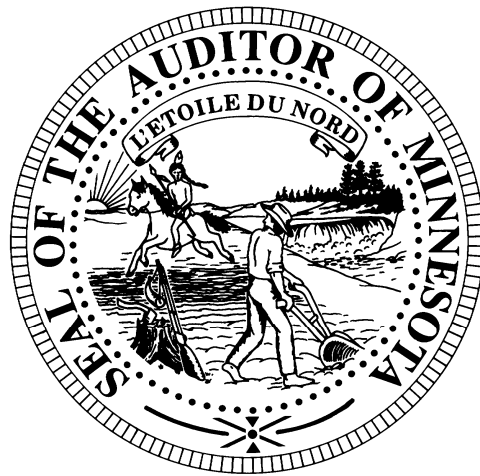
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@osa.state.mn.us
www.auditor.state.mn.us

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

Year Ended December 31, 2016



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

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		5
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Position	1	16
Statement of Activities	2	18
Fund Financial Statements		
Governmental Funds		
Balance Sheet	3	19
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position--Governmental Activities	4	23
Statement of Revenues, Expenditures, and Changes in Fund Balance	5	24
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	6	26
Proprietary Fund		
Statement of Net Position	7	28
Statement of Revenues, Expenses, and Changes in Fund Net Position	8	29
Statement of Cash Flows	9	30
Fiduciary Funds		
Statement of Fiduciary Net Position	10	31
Notes to the Financial Statements		32

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

TABLE OF CONTENTS

	Exhibit	Page
Financial Section (Continued)		
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	A-1	88
Road and Bridge Special Revenue Fund	A-2	91
Human Services Special Revenue Fund	A-3	92
Solid Waste Special Revenue Fund	A-4	93
Ditch Special Revenue Fund	A-5	94
Schedule of Funding Progress - Other Postemployment Benefits	A-6	95
PERA General Employees Retirement Plan		
Schedule of Proportionate Share of Net Pension Liability	A-7	96
Schedule of Contributions	A-8	97
PERA Public Employees Police and Fire Plan		
Schedule of Proportionate Share of Net Pension Liability	A-9	98
Schedule of Contributions	A-10	98
PERA Public Employees Correctional Plan		
Schedule of Proportionate Share of Net Pension Liability	A-11	99
Schedule of Contributions	A-12	99
Notes to the Required Supplementary Information		100
Supplementary Information		
Governmental Fund		
Budgetary Comparison Schedule - Debt Service Fund	B-1	104
Fiduciary Funds		
Agency Funds		105
Combining Statement of Changes in Assets and Liabilities - All Agency Funds	C-1	106
Other Schedule		
Schedule of Intergovernmental Revenue	D-1	107

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

TABLE OF CONTENTS
(Continued)

	<u>Exhibit</u>	<u>Page</u>
Management and Compliance Section		
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		109
Schedule of Findings and Recommendations		112
Corrective Action Plan		114
Summary Schedule of Prior Audit Findings		115

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

ORGANIZATION
2016

Office	Name	Term Expires
Commissioners		
1st District	Lon Walling	January 2017
2nd District	Jim Salfer	January 2019
3rd District	Dennis Groebner	January 2019
4th District	Priscilla Klabunde, Chair	January 2017
5th District	Sharon Hollatz, Vice Chair	January 2017
County Officers		
Elected		
Attorney	Steven Collins	January 2019
Auditor-Treasurer	Jean Price	January 2019
District Court Judge	Patrick R. Rohland	January 2019
Recorder	Joyce Anderson	January 2019
Sheriff	Randy Hanson	January 2019
Appointed		
Administrator	Vicki Knobloch	Indefinite
Assessor	Kathy Hillmer	Indefinite
Environmental Services Director	Scott Wold	Indefinite
Highway Engineer	William Rabenberg	Indefinite
License Center Supervisor	Lisa Guggisberg	Indefinite
Maintenance Supervisor	Loren Gewerth	Indefinite
Medical Examiner	Dr. Gregory McCallum	Indefinite
Veterans Service Officer	Martin Caraway	Indefinite

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Redwood County
Redwood Falls, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Redwood County, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Redwood County as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Redwood County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 14, 2017, on our consideration of Redwood County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Redwood County's internal control over financial reporting and compliance.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 14, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016
(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, 2016. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is \$99,053,908, of which \$80,162,252 is the net investment in capital assets, and \$7,431,412 is restricted to specific purposes. The \$11,460,244 remaining may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's net position increased by \$2,483,002 for the year ended December 31, 2016. A large part of the increase is attributable to the County's net investment in capital assets.
- The net cost of governmental activities for the current fiscal year was \$10,017,601. The net cost was funded by general revenues totaling \$12,500,603.
- Fund balances of the governmental funds increased by \$1,525,891. Most of the increase was due to the sale of a refunding bond in 2016 which will be used to crossover refund \$1,170,000 of the \$3,920,000 General Obligation Improvement Bonds, Series 2008A, to be called on February 1, 2019.
- For the year ended December 31, 2016, the assigned and unassigned fund balance of the General Fund was \$9,716,154, or 108.9 percent of the total General Fund expenditures for the year, a decrease of 9.7 percentage points.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

The Statement of Net Position presents information on all assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the County using the full accrual basis of accounting, with the difference (assets plus deferred outflows of resources less liabilities and deferred inflows of resources) being reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial health of the County is improving or deteriorating. It is important to consider other nonfinancial factors, such as changes in the County's property tax base and the condition of County roads and other capital assets, to assess the overall health of the County.

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

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

Fund Financial Statements

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

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

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

The County adopts an annual appropriated budget for its General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, Solid Waste Special Revenue Fund, Ditch Special Revenue Fund, and Debt Service Fund. Budgetary comparison schedules have been provided for each of these funds as either required or other supplementary information to demonstrate compliance with this budget.

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

A proprietary fund is maintained by Redwood County. Internal service funds are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses the Internal Service Fund to account for its self-insurance. The service benefits the governmental functions and has been allocated to the governmental activities in the government-wide financial statements.

The basic proprietary fund financial statements are Exhibits 7 through 9 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside of the County. Fiduciary funds are not reflected in the government-wide statements because the resources of these funds are not available to support the County's own programs or activities. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All fiduciary activities are reported in a separate Statement of Fiduciary Net Position on Exhibit 10.

Notes to the Financial Statements

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 32 through 87 of this report.

Other Information

Other information is provided as supplementary information regarding Redwood County's intergovernmental revenue.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the County's financial position. The County's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$99,053,908 at the close of 2016. The largest portion of the net position (80.9 percent) reflects the County's net investment in capital assets (for example: land, buildings, equipment, and infrastructure such as roads and bridges), less any related outstanding debt used to require those assets. However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt. Comparative data with 2015 is presented.

**Net Position
(in thousands)**

	Governmental Activities	
	2016	2015
Assets		
Current and other assets	\$ 29,563	\$ 27,356
Capital assets	85,678	83,196
Total Assets	\$ 115,241	\$ 110,552
Deferred Outflows of Resources		
Deferred pension outflows	\$ 5,117	\$ 729
Liabilities		
Long-term liabilities	\$ 17,812	\$ 13,024
Other liabilities	1,754	1,210
Total Liabilities	\$ 19,566	\$ 14,234
Deferred Inflows of Resources		
Deferred pension inflows	\$ 975	\$ 476
Advance from other governments	763	-
Total Deferred Inflows of Resources	\$ 1,738	\$ 476
Net Position		
Net investment in capital assets	\$ 80,162	\$ 76,878
Restricted	7,432	6,949
Unrestricted	11,460	12,744
Total Net Position	\$ 99,054	\$ 96,571

Unrestricted net position--the part of net position that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements--is 11.6 percent of net position.

Governmental Activities

The County's activities increased net position by 2.6 percent (\$96,570,906 for 2015, compared to \$99,053,908 for 2016). Key elements in this increase in net position are as follows for 2016, with comparative data for 2015.

Changes in Net Position (in thousands)

	Governmental Activities	
	2016	2015
Revenues		
Program revenues		
Fees, charges, fines, and other	\$ 2,507	\$ 2,367
Operating grants and contributions	7,015	6,804
Capital grants and contributions	978	2,502
General revenues		
Property taxes	10,920	10,504
Other	1,581	1,499
Total Revenues	\$ 23,001	\$ 23,676
Expenses		
General government	\$ 4,640	\$ 3,759
Public safety	4,204	3,414
Highways and streets	6,397	5,961
Sanitation	769	644
Human services	2,298	2,218
Health	222	250
Culture and recreation	395	361
Conservation of natural resources	1,221	1,645
Economic development	104	129
Interest	268	247
Total Expenses	\$ 20,518	\$ 18,628
Change in Net Position	\$ 2,483	\$ 5,048
Net Position - January 1	96,571	91,523
Net Position - December 31	\$ 99,054	\$ 96,571

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 available for spending. Such information is useful in assessing the County's financing requirements. In particular, unrestricted fund balance may serve as a useful measure of net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$24,635,462, an increase of \$1,525,891 in comparison with the prior year. Of the combined ending fund balances, \$14,406,311 represents assigned and unassigned fund balance which is available for spending at the County's discretion. The remainder of the fund balance is restricted to indicate that it is not available for new spending because it has already been restricted for various reasons either by state law, grant agreements, bond covenants, or is nonspendable or committed.

The General Fund is the main operating fund for the County. At the end of the current fiscal year, it had an assigned and unassigned fund balance of \$9,716,154. As a measure of the General Fund's liquidity, it may be useful to compare assigned and unassigned fund balance to total expenditures. The General Fund's assigned and unassigned fund balance represents 108.9 percent of total General Fund expenditures. The ending fund balance increased by \$623,645 during 2016, primarily due to receiving more revenues than were budgeted, spending less than was budgeted, and proceeds from the sale of capital assets.

The Road and Bridge Special Revenue Fund had an assigned fund balance of \$2,676,811 at fiscal year-end, representing 28.0 percent of its annual expenditures. The ending fund balance decreased \$140,006 during 2016, primarily due to spending more than was budgeted.

The Human Services Special Revenue Fund had an assigned fund balance of \$720,527 at fiscal year-end.

The Solid Waste Special Revenue Fund had an assigned fund balance of \$353,594 at fiscal year-end. The ending fund balance increased \$57,817 during 2016.

The Ditch Special Revenue Fund had restricted fund balance of \$1,391,521 at fiscal year-end. The ending fund balance decreased \$230,021 during 2016, primarily due to spending more than was budgeted.

The Springdale Watershed Special Revenue Fund balance increased \$18 during 2016 due to the collection of delinquent taxes. The Springdale Watershed Special Revenue Fund was new in 2013 and was created to account for restricted property tax revenues to be used to improve the watershed district in Springdale Township. The project was completed in 2015.

The Debt Service Fund had restricted fund balance of \$2,232,084 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. In 2013, new bonds were sold for the construction and remodeling of the Law Enforcement Center. In 2016, the sale of a refunding bond occurred which will be used to crossover refund \$1,170,000 of the \$3,920,000 General Obligation Improvement Bonds, Series 2008A, to be called on February 1, 2019.

Governmental Activities

The County’s total revenues were \$23,001,023. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2016.

**Table 1
Total County Revenues**

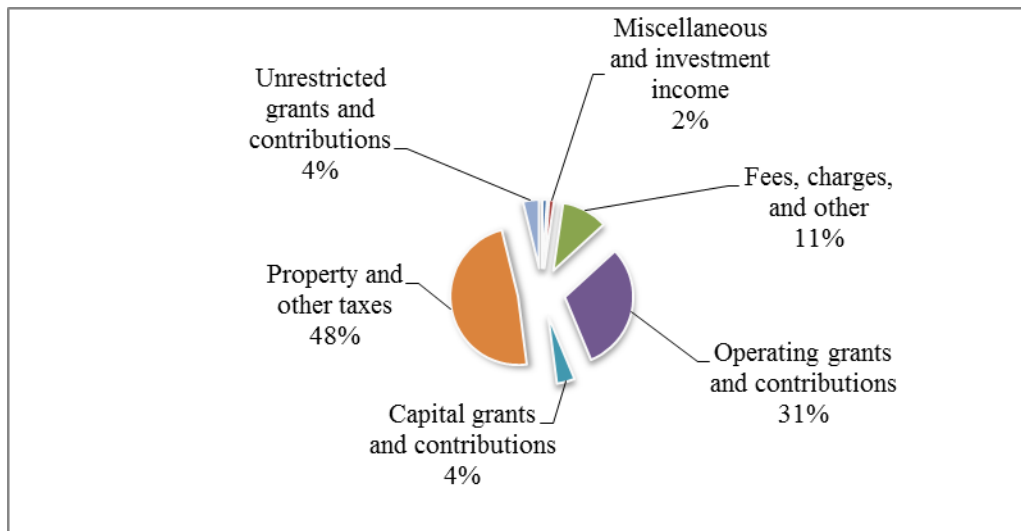
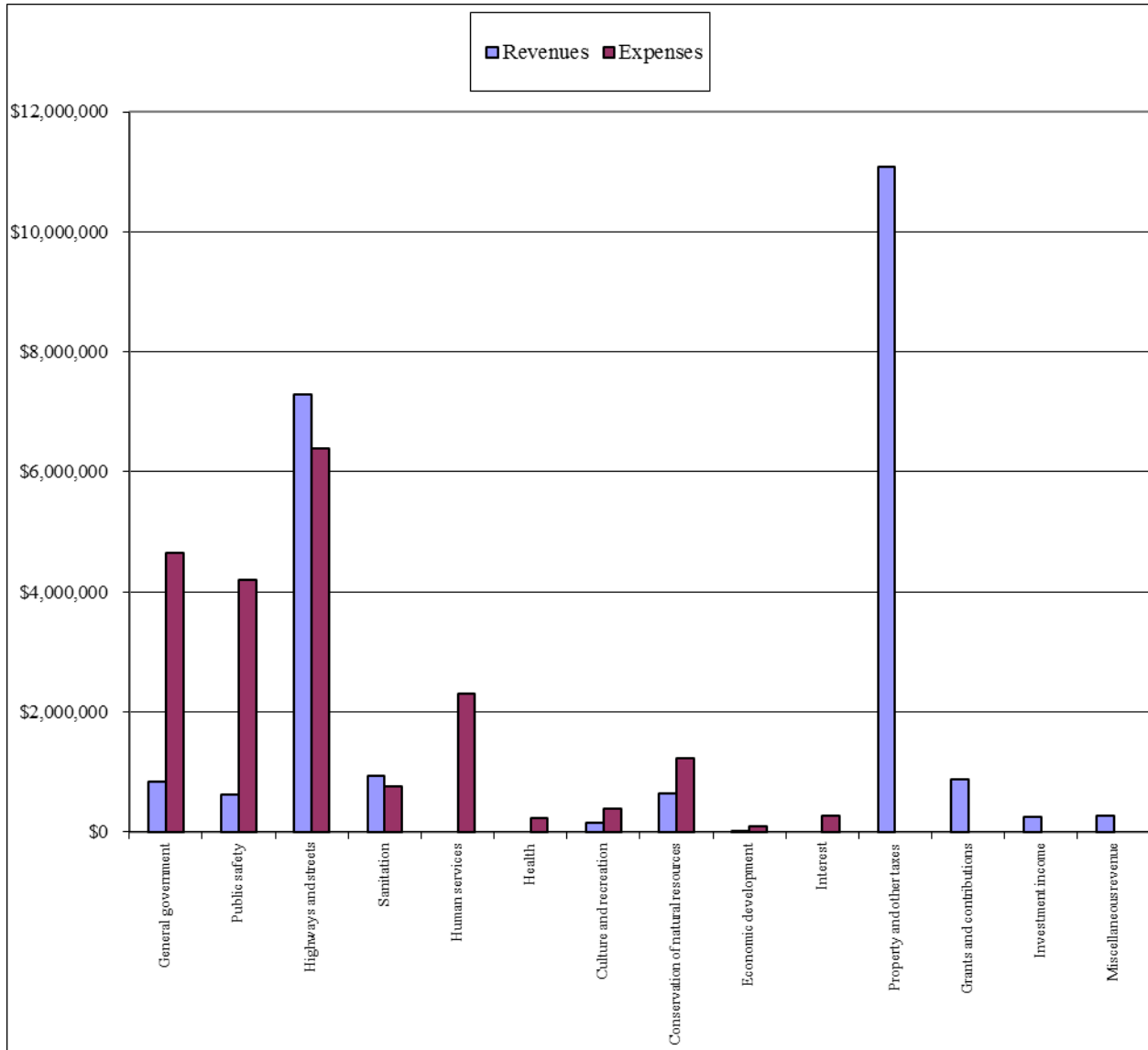


Table 2 presents the cost and revenue of each program, as well as the County’s general revenues.

Total program and general revenues for the County were \$23,001,023, while total expenses were \$20,518,021. This reflects a \$2,483,002 increase in net position for the year ended December 31, 2016.

**Table 2
Program Revenues, General Revenues, and Expenses**



The cost of all governmental activities this year was \$20,518,021. However, as shown on the Statement of Activities on Exhibit 2, the amount that taxpayers ultimately financed for these activities through County taxes was only \$10,919,857, because some of the cost was paid by those who directly benefited from the programs (\$2,506,945) or by other governments and organizations that subsidized certain programs with grants and contributions (\$7,993,475). 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 investment income.

Table 3 presents the cost of each of the County’s five largest program functions, as well as each function’s net cost (total cost, less revenues generated by the activity). The net cost shows the financial burden that was placed on the County’s taxpayers by each of these functions.

**Table 3
Governmental Activities**

	Total Cost of Services 2016	Net Cost (Revenue) of Services 2016
Highways and streets	\$ 6,397,542	\$ (883,156)
General government	4,640,482	3,794,662
Public safety	4,203,970	3,572,660
Human services	2,297,886	2,297,886
Conservation of natural resources	1,220,735	579,752
All others	1,757,406	655,797
Totals	\$ 20,518,021	\$ 10,017,601

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 \$523,954 less than the final budget amounts. One of the most significant positive variances of \$157,380 occurred in the Sheriff Department, where the actual expenditures were less than the amount budgeted. Another significant positive variance of \$141,307 occurred in buildings and plant, where the actual expenditures were also less than the amount budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County’s capital assets for its governmental activities at December 31, 2016, totaled \$85,678,178 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, equipment, and infrastructure. The investment in capital assets increased \$2,481,945, or 3.0 percent, from the previous year. The major capital asset event was:

Addition of infrastructure	\$ 4,629,543
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Table 4
Capital Assets at Year-End
(Net of Depreciation, in thousands)

	2016	2015
Land and right-of-way	\$ 2,067	\$ 2,064
Infrastructure	65,833	63,008
Buildings	9,743	10,516
Improvements other than buildings	573	362
Machinery and equipment	3,395	3,035
Construction in progress	4,067	4,211
Totals	\$ 85,678	\$ 83,196

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

Long-Term Debt

The County has net debt at December 31, 2016, of \$8,215,859. The debt is for financing the renovation of the Government Center and remodeling of the Courthouse (15-year term with final payment February 1, 2024). In 2013, the County issued a bond for the construction and remodel of the Law Enforcement Center (15-year term with final payment February 1, 2028) and a bond shared with Renville County for the construction of the joint Recycling Facility (15-year term with final payment February 1, 2028). In 2016, the sale of a refunding bond occurred which will be used to crossover refund the \$1,170,000 of the \$3,920,000 General Obligation Improvement Bonds, Series 2008A, to be called on February 1, 2019. Other debt includes lease agreements for financing squad cars for the Sheriff's Department, copiers for various departments, and a postage machine.

Table 5
Outstanding Debt

	2016	2015
General obligation improvement bonds, Series 2008A	\$ 2,396,647	\$ 2,639,739
General obligation law enforcement center bonds, Series 2013A	2,835,677	3,038,465
General obligation recycling facility bonds, Series 2013A	1,678,324	1,799,990
General obligation crossover refunding bonds, Series 2016A	1,208,995	-
Leased squad cars	73,038	78,560
Leased copiers and postage machine	23,178	25,569
Totals	\$ 8,215,859	\$ 7,582,323

Minnesota statutes limit the amount of debt a county may levy to 3.00 percent of its total market value. At the end of 2016, the County's outstanding debt was 0.19 percent of its total estimated market value.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The County's elected and appointed officials considered many factors when setting the 2017 budget, tax rates, and fees that will be charged for the year.

- The average unemployment rate for Redwood County at the end of 2016 was 4.3 percent and shows a 0.2 percentage point increase from one year ago. The state unemployment rate was 4.1 percent. The 2010 County population was 16,059, a decrease of 756 from the 2000 census of 16,815.
- At the end of 2016, Redwood County set its 2017 revenue and expenditure budgets.
- The 2017 property tax levy for the County increased to \$11,785,578, compared to \$11,373,770 in 2016.

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, P. O. Box 130, Redwood Falls, Minnesota 56283.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2016**

Assets

Current assets

Cash and pooled investments	\$ 13,569,581
Investments with escrow agent	1,632,542
Investments	8,985,443
Taxes receivable	
Delinquent	66,791
Special assessments receivable	
Current	425,982
Delinquent	44,452
Accounts receivable	7,569
Accrued interest receivable	45,057
Due from other governments	1,804,590
Loans receivable	19,207
Inventories	130,062
Prepaid items	40,930

Noncurrent assets

Loans receivable	2,654,072
Special assessments receivable	136,339

Capital assets

Non-depreciable	6,133,988
Depreciable - net of accumulated depreciation	79,544,190

Total Assets **\$ 115,240,795**

Deferred Outflows of Resources

Deferred pension outflows	<u>\$ 5,117,794</u>
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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**EXHIBIT 1
(Continued)**

**STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2016**

Liabilities

Current liabilities

Accounts payable	\$	218,448
Salaries payable		257,875
Claims payable		42,655
Contracts payable		201,466
Due to other governments		79,714
Accrued interest payable		92,883
Unearned revenue		65,456
Compensated absences payable - current		100,262
Net other postemployment benefits obligation - current		51,224
General obligation bonds payable - current		580,000
Capital leases payable - current		43,474
Loans payable - current		20,990

Noncurrent liabilities

Compensated absences payable		745,834
Net other postemployment benefits obligation		330,140
Net pension liability		8,992,367
Capital leases payable		52,742
General obligation bonds payable - net		6,330,648
General obligation crossover refunding bonds payable - net		1,208,995
Loans payable		151,155

Total Liabilities	\$	<u>19,566,328</u>
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Deferred Inflows of Resources

Deferred pension inflows	\$	974,780
Advance from other governments		763,573

Total Deferred Inflows of Resources	\$	<u>1,738,353</u>
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Net Position

Net investment in capital assets	\$	80,162,252
Restricted for		
Public safety		309,992
Conservation of natural resources		1,631,456
Highways and streets		3,027,235
Debt service		2,158,248
Other purposes		304,481
Unrestricted		11,460,244

Total Net Position	\$	<u>99,053,908</u>
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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Fees, Charges, Fines, and Other</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<u>Functions/Programs</u>					
Governmental activities					
General government	\$ 4,640,482	\$ 812,741	\$ 19,829	\$ 13,250	\$ (3,794,662)
Public safety	4,203,970	242,319	388,991	-	(3,572,660)
Highways and streets	6,397,542	113,580	6,210,950	956,168	883,156
Sanitation	768,563	700,813	233,839	-	166,089
Human services	2,297,886	-	-	-	(2,297,886)
Health	222,016	-	-	-	(222,016)
Culture and recreation	394,760	75,422	83,535	-	(235,803)
Conservation of natural resources	1,220,735	562,070	70,063	8,850	(579,752)
Economic development	103,909	-	8,000	-	(95,909)
Interest	268,158	-	-	-	(268,158)
Total Governmental Activities	\$ 20,518,021	\$ 2,506,945	\$ 7,015,207	\$ 978,268	\$ (10,017,601)
General Revenues					
Property taxes				\$ 10,919,857	
Other taxes				10,726	
Payments in lieu of tax				158,878	
Grants and contributions not restricted to specific programs				881,778	
Unrestricted investment income				251,439	
Miscellaneous				277,925	
Total general revenues				\$ 12,500,603	
Change in net position				\$ 2,483,002	
Net Position - Beginning				96,570,906	
Net Position - Ending				\$ 99,053,908	

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>
<u>Assets</u>			
Cash and pooled investments	\$ 4,783,212	\$ 5,468,300	\$ 678,957
Undistributed cash in agency fund	141,148	32,294	41,570
Petty cash and change funds	1,600	-	-
Investments with escrow agent	-	-	-
Investments	6,993,944	-	-
Taxes receivable			
Delinquent	38,713	10,206	13,704
Special assessments receivable			
Delinquent	1,618	-	-
Noncurrent	169,656	-	-
Accounts receivable	1,777	5,792	-
Accrued interest receivable	25,459	-	-
Due from other funds	-	1,330	-
Due from other governments	88,883	1,676,541	-
Advances to other funds	-	-	-
Loans receivable	1,123,279	-	-
Inventories	-	130,062	-
Prepaid items	26,379	14,425	-
Total Assets	<u>\$ 13,395,668</u>	<u>\$ 7,338,950</u>	<u>\$ 734,231</u>

EXHIBIT 3

<u>Solid Waste</u>	<u>Ditch</u>	<u>Springdale Watershed</u>	<u>Debt Service</u>	<u>Total</u>
\$ 372,337	\$ 674,525	\$ -	\$ 587,458	\$ 12,564,789
22,290	5,268	19	12,084	254,673
-	-	-	-	1,600
-	-	-	1,632,542	1,632,542
-	1,750,270	-	-	8,744,214
-	-	212	3,956	66,791
42,745	89	-	-	44,452
-	392,665	-	-	562,321
-	-	-	-	7,569
15,500	4,098	-	-	45,057
-	-	-	-	1,330
-	39,166	-	-	1,804,590
-	223	-	-	223
1,550,000	-	-	-	2,673,279
-	-	-	-	130,062
-	126	-	-	40,930
<u>\$ 2,002,872</u>	<u>\$ 2,866,430</u>	<u>\$ 231</u>	<u>\$ 2,236,040</u>	<u>\$ 28,574,422</u>

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	General	Road and Bridge	Human Services
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 60,901	\$ 54,162	\$ -
Salaries payable	172,639	80,312	-
Contracts payable	-	201,466	-
Due to other funds	1,237	-	-
Due to other governments	43,125	2,824	-
Advances from other funds	-	-	-
Unearned revenue	-	65,456	-
	\$ 277,902	\$ 404,220	\$ -
Deferred Inflows of Resources			
Unavailable revenue	\$ 221,167	\$ 1,664,371	\$ 13,704
Advance from other governments	-	763,573	-
	\$ 221,167	\$ 2,427,944	\$ 13,704
Fund Balances			
Nonspendable	\$ 1,151,660	\$ 144,487	\$ -
Restricted	632,800	1,685,488	-
Committed	1,395,985	-	-
Assigned	6,367,123	2,676,811	720,527
Unassigned	3,349,031	-	-
	\$ 12,896,599	\$ 4,506,786	\$ 720,527
	\$ 13,395,668	\$ 7,338,950	\$ 734,231

EXHIBIT 3
(Continued)

<u>Solid Waste</u>	<u>Ditch</u>	<u>Springdale Watershed</u>	<u>Debt Service</u>	<u>Total</u>
\$ 19	\$ 103,366	\$ -	\$ -	\$ 218,448
-	4,924	-	-	257,875
-	-	-	-	201,466
-	93	-	-	1,330
11,514	22,251	-	-	79,714
-	-	223	-	223
-	-	-	-	65,456
<u>\$ 11,533</u>	<u>\$ 130,634</u>	<u>\$ 223</u>	<u>\$ -</u>	<u>\$ 824,512</u>
\$ 42,745	\$ 404,720	\$ 212	\$ 3,956	\$ 2,350,875
-	-	-	-	763,573
<u>\$ 42,745</u>	<u>\$ 404,720</u>	<u>\$ 212</u>	<u>\$ 3,956</u>	<u>\$ 3,114,448</u>
\$ 1,550,000	\$ 126	\$ -	\$ -	\$ 2,846,273
45,000	1,391,521	-	2,232,084	5,986,893
-	-	-	-	1,395,985
353,594	939,429	-	-	11,057,484
-	-	(204)	-	3,348,827
<u>\$ 1,948,594</u>	<u>\$ 2,331,076</u>	<u>\$ (204)</u>	<u>\$ 2,232,084</u>	<u>\$ 24,635,462</u>
<u>\$ 2,002,872</u>	<u>\$ 2,866,430</u>	<u>\$ 231</u>	<u>\$ 2,236,040</u>	<u>\$ 28,574,422</u>

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2016**

Fund balance - total governmental funds (Exhibit 3) \$ 24,635,462

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. 85,678,178

Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in governmental funds. 5,117,794

An internal service fund is used by Redwood County to charge the cost of the self-funded insurance programs to functions. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net position. 947,093

Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources--unavailable revenue in the governmental funds. 2,350,875

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

Bonds payable	\$	(8,045,000)	
Unamortized premium on bonds		(87,996)	
Unamortized discount on bonds		13,353	
Leases payable		(96,216)	
Loans payable		(172,145)	
Compensated absences		(846,096)	
Net other postemployment benefits obligation		(381,364)	
Net pension liability		(8,992,367)	
Accrued interest payable		(92,883)	(18,700,714)

Deferred inflows of resources resulting from pension obligations are not due and payable in the current period and, therefore, are not reported in governmental funds. (974,780)

Net Position of Governmental Activities (Exhibit 1) \$ 99,053,908

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>
Revenues			
Taxes	\$ 6,342,646	\$ 1,718,281	\$ 2,201,625
Other taxes	10,726	-	-
Special assessments	43,668	-	-
Licenses and permits	72,387	-	-
Intergovernmental	1,397,442	7,602,372	94,647
Charges for services	692,295	15,045	-
Gifts and contributions	9,556	-	-
Investment earnings	181,294	24,502	-
Miscellaneous	501,686	92,318	-
Total Revenues	\$ 9,251,700	\$ 9,452,518	\$ 2,296,272
Expenditures			
Current			
General government	\$ 3,814,969	\$ -	\$ -
Public safety	3,601,943	-	-
Highways and streets	-	9,035,561	-
Sanitation	-	-	-
Culture and recreation	285,253	-	-
Conservation of natural resources	670,309	-	-
Economic development	103,909	-	-
Intergovernmental	311,563	535,485	2,297,886
Debt service			
Principal	122,857	-	-
Interest	9,114	-	-
Administrative (fiscal) charges	-	-	-
Bond issuance costs	-	-	-
Total Expenditures	\$ 8,919,917	\$ 9,571,046	\$ 2,297,886
Excess of Revenues Over (Under) Expenditures	\$ 331,783	\$ (118,528)	\$ (1,614)
Other Financing Sources (Uses)			
Capital leases	\$ 68,091	\$ -	\$ -
Loans issued	31,089	-	-
Bonds issued	-	-	-
Premium on bonds sold	-	-	-
Proceeds from sale of capital assets	192,682	425	-
Total Other Financing Sources (Uses)	\$ 291,862	\$ 425	\$ -
Net Change in Fund Balance	\$ 623,645	\$ (118,103)	\$ (1,614)
Fund Balance - January 1	12,272,954	4,646,792	722,141
Increase (decrease) in inventories	-	(21,903)	-
Fund Balance - December 31	\$ 12,896,599	\$ 4,506,786	\$ 720,527

EXHIBIT 5

<u>Solid Waste</u>	<u>Ditch</u>	<u>Springdale Watershed</u>	<u>Debt Service</u>	<u>Total</u>
\$ -	\$ -	\$ 18	\$ 640,447	\$ 10,903,017
-	-	-	-	10,726
607,913	284,718	-	-	936,299
2,150	-	-	-	74,537
233,844	183	-	30,418	9,358,906
-	-	-	-	707,340
-	-	-	-	9,556
31,000	8,334	-	2,024	247,154
35,553	226	-	-	629,783
\$ 910,460	\$ 293,461	\$ 18	\$ 672,889	\$ 22,877,318
\$ -	\$ -	\$ -	\$ -	\$ 3,814,969
-	-	-	-	3,601,943
-	-	-	-	9,035,561
18,133	-	-	-	18,133
-	-	-	-	285,253
-	523,482	-	-	1,193,791
-	-	-	-	103,909
721,381	-	-	-	3,866,315
120,000	-	-	445,000	687,857
44,615	-	-	181,193	234,922
514	-	-	1,162	1,676
-	-	-	44,048	44,048
\$ 904,643	\$ 523,482	\$ -	\$ 671,403	\$ 22,888,377
\$ 5,817	\$ (230,021)	\$ 18	\$ 1,486	\$ (11,059)
\$ -	\$ -	\$ -	\$ -	\$ 68,091
-	-	-	-	31,089
-	-	-	1,170,000	1,170,000
-	-	-	44,566	44,566
52,000	-	-	-	245,107
\$ 52,000	\$ -	\$ -	\$ 1,214,566	\$ 1,558,853
\$ 57,817	\$ (230,021)	\$ 18	\$ 1,216,052	\$ 1,547,794
1,890,777	2,561,097	(222)	1,016,032	23,109,571
-	-	-	-	(21,903)
\$ 1,948,594	\$ 2,331,076	\$ (204)	\$ 2,232,084	\$ 24,635,462

**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, 2016**

Net change in fund balance - total governmental funds (Exhibit 5) \$ 1,547,794

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.

Unavailable revenue - December 31	\$ 2,350,875	
Unavailable revenue - January 1	<u>(2,511,256)</u>	(160,381)

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. The difference is the net book value of the assets disposed of.

Expenditures for general capital assets and infrastructure	\$ 5,770,684	
Net book value of assets disposed of	(624,952)	
Current year depreciation	<u>(2,663,787)</u>	2,481,945

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 position. Also, governmental funds report the effect of 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	\$ 565,000	
Loans payable	46,853	
Leases payable	76,004	
Amortization of discounts and premiums	<u>8,117</u>	695,974
New debt issued (see Note 3.C.6. for more information)		(1,313,746)

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**EXHIBIT 6
(Continued)**

**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, 2016**

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

Change in accrued interest payable	\$	4,374	
Change in compensated absences		(49,336)	
Change in net other postemployment benefits obligation		(42,791)	
Change in net pension liability		(4,874,021)	
Change in deferred pension outflows		4,389,094	
Change in deferred pension inflows		(498,183)	
Change in inventories		(21,903)	(1,092,766)

An internal service fund is used by Redwood County to charge the cost of the self-funded insurance programs to functions. The increase or decrease in net position of the internal service fund is reported in the government-wide statement of activities.

324,182

Change in Net Position of Governmental Activities (Exhibit 2)

\$ 2,483,002

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PROPRIETARY FUND

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2016**

	<u>Governmental Activities Internal Service Fund</u>
<u>Assets</u>	
Current assets	
Cash and pooled investments	\$ 748,519
Investments	<u>241,229</u>
Total Assets	\$ 989,748
<u>Liabilities</u>	
Current liabilities	
Claims payable	<u>42,655</u>
<u>Net Position</u>	
Unrestricted	<u><u>\$ 947,093</u></u>

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Governmental Activities Internal Service Fund</u>
Operating Revenues	
Charges for services	\$ 1,256,938
Operating Expenses	
Cost of service	<u>932,756</u>
Operating Income (Loss)	\$ 324,182
Net Position - January 1	<u>622,911</u>
Net Position - December 31	<u><u>\$ 947,093</u></u>

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2016
Increase (Decrease) in Cash and Cash Equivalents**

	Governmental Activities
	Internal Service Fund
Cash Flows from Operating Activities	
Receipts from internal services provided	\$ 1,256,938
Payments to suppliers	(948,952)
Net cash provided by (used in) operating activities	\$ 307,986
Cash Flows from Investing Activities	
Purchase of investments	(241,229)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 66,757
Cash and Cash Equivalents at January 1	681,762
Cash and Cash Equivalents at December 31	\$ 748,519
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating income (loss)	\$ 324,182
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Increase (decrease) in claims payable	(16,196)
Net Cash Provided by (Used in) Operating Activities	\$ 307,986

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FIDUCIARY FUNDS

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2016**

Assets

Cash and pooled investments	\$ 317,660
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Liabilities

Due to other governments	\$ 317,660
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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

1. Summary of Significant Accounting Policies

The County’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America as of and for the year ended December 31, 2016. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Redwood County was established February 6, 1862, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. § 373.01. As required by accounting principles generally accepted in the United States of America, these financial statements present Redwood County. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The County Administrator serves as the clerk of the Board of Commissioners but has no vote.

Blended Component Unit

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

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures and Jointly-Governed Organizations

The County participates in several joint ventures described in Note 5.C. The County also participates in jointly-governed organizations described in Note 5.D.

B. Basic Financial Statements

1. Government-Wide Statements

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

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

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

- The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.
- The Road and Bridge Special Revenue Fund accounts for restricted revenues from the federal and state government, as well as assigned property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways.
- The Human Services Special Revenue Fund accounts for assigned property tax revenues used for economic assistance and community social services programs.
- The Solid Waste Special Revenue Fund accounts for restricted special assessment revenues, miscellaneous revenues, and revenue resources from the state for the costs relating to disposal of the County's solid waste.
- The Ditch Special Revenue Fund accounts for special assessment revenues levied against benefitted property to finance the cost of constructing and maintaining an agricultural drainage ditch system.
- The Springdale Watershed Special Revenue Fund accounts for restricted property tax revenues to be used to improve the watershed district in Springdale Township.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

- The Debt Service Fund is used to account for the accumulation of restricted resources used for, and the payment of, principal, interest, and related costs.

Additionally, the County reports the following fund types:

- The Internal Service Fund accounts for health insurance premiums and payments.
- 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, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the full 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.

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 taxes are recognized as revenues in the year for which they are levied provided they are also available. Shared revenues are generally recognized in the period the appropriation goes into effect and the revenues are available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and are available. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

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, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor-Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2016, using a market approach. 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 2016 were \$39,392.

Cash and cash equivalents are identified only for the purpose of the statement of cash flows for the proprietary fund. Pooled investments, which have the characteristics of demand deposits for each fund, are considered to be cash and cash equivalents on the statement of cash flows.

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

2. Receivables and Payables

Activities between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (the current portion of interfund loans) or “advances to/from other funds” (the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.”

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

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

Special assessments receivable consist of delinquent special assessments payable in the years 2011 through 2016 and noncurrent special assessments payable in 2017 and after. Unpaid special assessments at December 31 are classified in the financial statements as delinquent special assessments.

No allowance for uncollectible receivables has been provided because such amounts are not expected to be material.

The County had no accounts receivable scheduled to be collected beyond one year.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

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 in proprietary funds and 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 \$5,000 or more 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 acquisition value (entry price) on the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of Redwood 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
Improvements other than buildings	20 - 35
Public domain infrastructure	15 - 70
Furniture, equipment, and vehicles	3 - 20
Intangible assets	3 - 7

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

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. A liability for compensated absences is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. The government-wide statement of net position reports both current and noncurrent portions of compensated absences. The current portion consists of an amount based on a trend analysis of current usage of vacation and vested sick leave. The noncurrent portion consists of the remaining amount of vacation and total vested sick leave. For the governmental activities, compensated absences are liquidated by the General Fund, the Road and Bridge Special Revenue Fund, and the Ditch Special Revenue Fund.

6. Long-Term Obligations

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net position. Bond premiums and discounts, if material, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

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.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

7. Pension Plan

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year-end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value. The pension liability is liquidated through the General Fund and other governmental funds that have personal services.

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. The County has one item, deferred pension outflows, that qualifies for reporting in this category. These outflows arise only under the full accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date, changes in actuarial assumptions, differences between projected and actual earnings on pension plan investments, pension plan changes in proportionate share, and also the differences between expected and actual pension plan economic experience and, accordingly, are reported only in the statement of net position.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has three types of deferred inflows. The governmental funds report unavailable revenue from delinquent taxes receivable, delinquent and noncurrent special assessments receivable, interest receivable, grant monies

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

8. Deferred Outflows/Inflows of Resources (Continued)

receivable, and other receivables for amounts that are not considered to be available to liquidate liabilities of the current period. Unavailable revenue arises only under the modified accrual basis of accounting and, accordingly, is reported only in the governmental funds balance sheet. The unavailable revenue amount is deferred and recognized as an inflow of resources in the period that the amounts become available. The County also has deferred pension inflows. These inflows arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience and also pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position. Advance from other governments arises under both the modified accrual and the full accrual basis of accounting and is reported in both the governmental funds balance sheet and the statement of net position.

9. Unearned Revenue

Governmental funds and government-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned.

10. Classification of Net Position

Net position in the government-wide and proprietary fund financial statements is classified in the following categories:

- Net investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.
- Restricted net position - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position - the amount of net position that does not meet the definition of restricted or net investment in capital assets.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

11. Classification of Fund Balances

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

- Nonspendable - amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.
- Restricted - amounts in which constraints have been placed on the use of resources either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.
- Committed - amounts that can be used only for the specific purposes imposed by formal action (resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.
- Assigned - amounts the County intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board or the County Administrator, who has been delegated that authority by Board resolution.
- Unassigned - the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

11. Classification of Fund Balances (Continued)

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

12. Minimum Fund Balance

Redwood County has adopted a minimum fund balance policy for the General Fund. The General Fund is heavily reliant on property tax revenues to fund current operations. However, current property tax revenues are not available for distribution until June. Therefore, the County Board has determined it needs to maintain a minimum unrestricted fund balance (committed, assigned, and unassigned) of no less than three months of operating expenditures. The fund balance policy was adopted by the County Board on December 27, 2011. At December 31, 2016, unrestricted fund balance for the General Fund was at or above the minimum fund balance level.

13. 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, deferred outflows of resources, liabilities, and deferred inflows of resources, 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.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Deficit Fund Balance

The Springdale Watershed Special Revenue Fund had a deficit fund balance of \$204 at December 31, 2016. An advance of \$223 was made from the Ditch Special Revenue Fund to cover the cash deficit. The deficit will be eliminated with the future collection of the delinquent taxes.

Tax Abatements

On October 17, 2006, the County Board approved an economic development tax abatement pursuant to Minn. Stat. §§ 469.1812-.1815 to reimburse a portion of the costs incurred to construct an ethanol facility in Lamberton Township near the City of Lamberton by Highwater Ethanol, LLC. The abatement period is ten years beginning with taxes payable in 2009 and continuing through 2018. For the year ending December 31, 2016, Redwood County abated property taxes totaling \$52,362.

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

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

Government-wide statement of net position	
Governmental activities	
Cash and pooled investments	\$ 13,569,581
Investments with escrow agent	1,632,542
Investments	8,985,443
Statement of fiduciary net position	
Cash and pooled investments	<u>317,660</u>
Total Cash and Investments	<u>\$ 24,505,226</u>

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County's policy is to minimize deposit custodial credit risk by obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law. As of December 31, 2016, the County's deposits were not exposed to custodial credit risk.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments (Continued)

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.

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: (1) structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments

Interest Rate Risk (Continued)

avoiding the need to sell securities in the open market; (2) investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools; and (3) limiting the average maturity in accordance with the County's cash requirements.

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County's policy is to minimize investment custodial credit risk by permitting brokers that obtain investments for the County to hold them only to the extent Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage is available. As of December 31, 2016, the County's investments held by brokers were not subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. The County's policy is to diversify the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments (Continued)

The following table presents the County's cash and investment balances at December 31, 2016, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
U.S. government agency securities					
U.S. Treasury Notes	N/R	N/A		08/01/2017	\$ 6,301
U.S. Treasury Notes	N/R	N/A		02/01/2018	4,722
U.S. Treasury Notes	N/R	N/A		08/01/2018	4,738
U.S. Treasury Notes	N/R	N/A		02/01/2019	1,614,756
Total U.S. Treasury Notes			>5%		\$ 1,630,517
Federal Home Loan Bank Bonds	AAA	S&P		08/22/2018	\$ 24,823
Federal Home Loan Bank Bonds	AAA	S&P		06/07/2021	73,518
Federal Home Loan Bank Bonds	AAA	S&P		07/27/2021	72,672
Federal Home Loan Bank Bonds	AA+	S&P		12/30/2021	299,280
Total Federal Home Loan Bank Bonds			<5%		\$ 470,293
Federal Farm Credit Bank	AAA	S&P		11/13/2017	\$ 39,942
Federal Farm Credit Bank	AAA	S&P		04/02/2018	49,941
Federal Farm Credit Bank	AAA	S&P		05/03/2021	49,082
Federal Farm Credit Bank	AAA	S&P		08/16/2021	24,094
Total Federal Farm Credit Bank			<5%		\$ 163,059
Federal National Mortgage Association Bonds	N/R	N/A		04/01/2017	\$ 170
Federal National Mortgage Association Bonds	AAA	S&P		06/20/2019	85,892
Federal National Mortgage Association Bonds	AAA	S&P		07/27/2020	72,755
Federal National Mortgage Association Bonds	AAA	S&P		06/30/2021	38,777
Federal National Mortgage Association Bonds	AA+	S&P		08/24/2021	298,020
Federal National Mortgage Association Bonds	N/R	N/A		10/01/2040	16,735
Federal National Mortgage Association Bonds	N/R	N/A		01/01/2041	16,600
Federal National Mortgage Association Bonds	N/R	N/A		09/25/2041	15,346
Total Federal National Mortgage Association Bonds			<5%		\$ 544,295
Federal National Mortgage Association Notes	AA+	S&P	<5%	03/16/2021	\$ 986,000

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk Over 5 Percent of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
	Credit Rating	Rating Agency			
U.S. government agency securities (Continued)					
Federal Home Loan Mortgage Corporation Notes	AAA	S&P		03/05/2020	\$ 40,570
Federal Home Loan Mortgage Corporation Notes	AAA	S&P		03/12/2020	75,763
Federal Home Loan Mortgage Corporation Notes	AA+	S&P		10/27/2023	240,443
Federal Home Loan Mortgage Corporation Notes	N/R	N/A		03/15/2039	8,503
Federal Home Loan Mortgage Corporation Notes	N/R	N/A		10/01/2041	7,924
Total Federal Home Loan Mortgage Corporation Notes			<5%		\$ 373,203
Maine State Municipal Bond Bank	AA+	S&P	<5%	11/01/2017	\$ 49,950
Georgia State - G.O. Bond	AAA	S&P	<5%	10/01/2019	\$ 25,954
Carrboro North Carolina - G.O. Bond	AAA	S&P	<5%	02/01/2018	\$ 50,540
Montgomery County Tennessee - G.O. Bond	AA+	S&P	<5%	05/01/2018	\$ 29,943
Olathe Kansas - G.O. Bond	AA+	S&P	<5%	10/01/2017	\$ 25,415
Florida State Hurricane Catastrophe Revenue Bond	AA	S&P	<5%	07/01/2018	\$ 50,502
Wisconsin State General Obligation	AA	S&P	<5%	05/01/2021	\$ 52,739
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	>5%	N/A	\$ 12,030,378
Money Market GOTXX	N/R	N/A	<5%	N/A	32,275
Total investment pools/mutual funds					\$ 12,062,653
Negotiable certificates of deposit	N/A	N/A	>5%	Varies	\$ 5,654,276
Total investments					\$ 22,169,339
Checking					173,787
Savings					1,683,500
Non-negotiable certificates of deposit					477,000
Petty cash and change funds					1,600
Total Cash and Investments					\$ 24,505,226

N/A - Not Applicable

N/R - Not Rated

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

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments (Continued)

The County measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and,
- *Level 3:* Unobservable inputs.

At December 31, 2016, the County had the following recurring fair value measurements:

	December 31, 2016	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Debt securities				
U.S. Treasury securities	\$ 1,630,517	\$ 1,630,517	\$ -	\$ -
U.S. agencies	2,536,850	-	2,536,850	-
Municipal/public bonds	285,043	-	285,043	-
Negotiable certificates of deposit	5,654,276	-	5,654,276	-
	<u>\$ 10,106,686</u>	<u>\$ 1,630,517</u>	<u>\$ 8,476,169</u>	<u>\$ -</u>
Total Investments Included in the Fair Value Hierarchy				
Investments measured at the net asset value (NAV)				
MAGIC Portfolio	\$ 12,030,378			
Money market mutual fund	32,275			
	<u>\$ 12,062,653</u>			
Total Investments Measured at the NAV				

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments (Continued)

Debt securities classified in Level 1 are valued using a market approach quoted in active markets for those securities. Debt securities classified in Level 2 are valued using the following approaches:

- U.S. agencies, municipal bonds, negotiable certificates of deposit: matrix pricing based on the securities' relationship to benchmark quoted prices;
- U.S. agencies, negotiable certificates of deposit: a computerized pricing service, or, for less actively traded issues, by utilizing a yield-based matrix system to arrive at an estimated market value.

MAGIC is a local government investment pool which is quoted at a net asset value (NAV). The County invests in this pool for the purpose of the joint investment of the County's money with those of other counties to enhance the investment earnings accruing to each member.

MAGIC Portfolio is valued using amortized cost. Shares of the MAGIC Portfolio are available to be redeemed upon proper notice without restrictions under normal operating conditions. There are no limits to the number of redemptions that can be made as long as the County has a sufficient number of shares to meet their redemption request. The MAGIC Fund's Board of Trustees can suspend the right of withdrawal or postpone the date of payment if the Trustees determine that there is an emergency that makes the sale of a Portfolio's securities or determination of its net asset value not reasonably practical.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources (Continued)

2. Loans Receivable

On June 4, 2013, the County Board approved a \$1,000,000 loan to the Redwood/Renville Regional Solid Waste Authority (RRRSWA) to finance a Joint Regional Material Recovery Facility. On November 17, 2015, the County Board approved an additional \$1,600,000 loan to the RRRSWA. The RRRSWA will have semi-annual interest payments due to the County on June 1 and December 1 of each applicable year, with no principal due. At the end of the three-year period, interest will be reviewed and repayment schedules will be established.

Starting in 2009, the Redwood County Economic Development Authority (RCEDA) received a Rural Business Enterprise Grant through the United States Department of Agriculture with a match from the County to provide revolving loans to area businesses. The County Board approves all loans recommended by the RCEDA. The County has three outstanding RCEDA loans as of December 31, 2016.

Loan activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
RRRSWA Loan	\$ 2,600,000	\$ -	\$ -	\$ 2,600,000
RCEDA Loans				
Red Rock Chiropractic #1	244	-	244	-
Red Rock Chiropractic #2	12,288	-	7,250	5,038
Nelson Martin Funeral Home	1,875	-	1,875	-
Knott's Corner	36,405	-	6,995	29,410
Dairy Queen	-	40,000	1,169	38,831
Total	<u>\$ 2,650,812</u>	<u>\$ 40,000</u>	<u>\$ 17,533</u>	<u>\$ 2,673,279</u>

3. Capital Assets

Capital asset activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 466,485	\$ 111,972	\$ 162,605	\$ 415,852
Right-of-way	1,597,599	53,539	-	1,651,138
Construction in progress	4,211,317	3,879,612	4,023,931	4,066,998
Total capital assets not depreciated	<u>\$ 6,275,401</u>	<u>\$ 4,045,123</u>	<u>\$ 4,186,536</u>	<u>\$ 6,133,988</u>

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

2. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets depreciated				
Buildings	\$ 15,038,489	\$ -	\$ 1,003,284	\$ 14,035,205
Improvements other than buildings	542,842	238,031	-	780,873
Machinery and equipment	9,138,154	881,918	535,562	9,484,510
Infrastructure	88,859,770	4,629,543	-	93,489,313
	<u>\$ 113,579,255</u>	<u>\$ 5,749,492</u>	<u>\$ 1,538,846</u>	<u>\$ 117,789,901</u>
Total capital assets depreciated				
Less: accumulated depreciation for				
Buildings	\$ 4,522,861	\$ 328,717	\$ 559,724	\$ 4,291,854
Improvements other than buildings	180,874	27,358	-	208,232
Machinery and equipment	6,103,073	503,205	516,775	6,089,503
Infrastructure	25,851,615	1,804,507	-	27,656,122
	<u>\$ 36,658,423</u>	<u>\$ 2,663,787</u>	<u>\$ 1,076,499</u>	<u>\$ 38,245,711</u>
Total accumulated depreciation				
Total capital assets depreciated, net	<u>\$ 76,920,832</u>	<u>\$ 3,085,705</u>	<u>\$ 462,347</u>	<u>\$ 79,544,190</u>
Capital Assets, Net	<u>\$ 83,196,233</u>	<u>\$ 7,130,828</u>	<u>\$ 4,648,883</u>	<u>\$ 85,678,178</u>

Construction in progress consists of amounts completed on open road projects, land purchase, and equipment construction projects.

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

General government	\$ 422,347
Public safety	216,871
Highways and streets, including depreciation of infrastructure assets	1,938,560
Sanitation	17,900
Culture and recreation	6,773
Conservation of natural resources	61,336
	<u>61,336</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 2,663,787</u>

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

The composition of interfund balances as of December 31, 2016, is as follows:

Receivable Fund	Payable Fund	Amount
Road and Bridge Special Revenue Fund	General Fund	\$ 1,237
	Ditch Special Revenue Fund	93
Total Due To/From Other Funds		\$ 1,330

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. Advances To/From Other Funds

The composition of interfund balances as of December 31, 2016, is as follows:

Receivable Fund	Payable Fund	Amount
Ditch Special Revenue Fund	Springdale Watershed Special Revenue Fund	\$ 223

The Ditch Special Revenue Fund transferred money to provide working capital to the Springdale Watershed Special Revenue Fund. Delinquent taxes will be collected to pay back the Ditch Special Revenue Fund. All balances are expected to be liquidated in the subsequent year.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities and Deferred Inflows of Resources

1. Construction and Other Commitments

The County has active construction projects and other commitments as of December 31, 2016. The projects and commitments include the following:

	Spent-to-Date	Remaining Commitment
Pictometry	\$ 127,468	\$ 73,036

The remaining commitment for highway projects are state-funded and, therefore, are not obligations of the County at December 31, 2016.

2. Unearned Revenues/Deferred Inflows of Resources

Unearned revenues and deferred inflows of resources consist of special assessments, taxes, state grants, and interest not collected soon enough after year-end to pay liabilities of the current period, and other receivables received but not yet earned. Unearned revenues and deferred inflows of resources at December 31, 2016, are summarized below by fund:

	Special Assessments	Taxes	Grants	Interest	Other	Total
Major governmental funds						
General	\$ 171,274	\$ 38,713	\$ -	\$ 11,180	\$ -	\$ 221,167
Road and Bridge	-	10,206	2,477,402	-	5,792	2,493,400
Human Services	-	13,704	-	-	-	13,704
Solid Waste	42,745	-	-	-	-	42,745
Ditch	392,754	-	-	4,098	7,868	404,720
Springdale Watershed	-	212	-	-	-	212
Debt Service	-	3,956	-	-	-	3,956
Total	\$ 606,773	\$ 66,791	\$ 2,477,402	\$ 15,278	\$ 13,660	\$ 3,179,904
Liabilities						
Unearned revenue	\$ -	\$ -	\$ 65,456	\$ -	\$ -	\$ 65,456
Deferred inflows of resources						
Unavailable revenue	606,773	66,791	1,648,373	15,278	13,660	2,350,875
Advance from other governments	-	-	763,573	-	-	763,573
Total	\$ 606,773	\$ 66,791	\$ 2,477,402	\$ 15,278	\$ 13,660	\$ 3,179,904

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

3. Long-Term Debt

Loans Payable

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

<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, 2016</u>
Clean water loans					
Cottonwood River Restoration/ Continuation	2017	\$ 15,172	2.00	\$ 434,219	\$ 3,620
Redwood River Watershed Project Continuation	2017	6,326	2.00	127,675	12,465
Cottonwood River Watershed Phosphorus TMDL	2022	2,033	2.00	98,199	22,878
Middle Minnesota Continuation	2024	746	2.00	13,469	10,986
Redwood-Cottonwood River Septic Loan Program 2013	-	-	-	310,000	81,884
Middle Minnesota Watershed SSTS Loan Project	-	-	-	200,000	40,312
Total					<u>\$ 172,145</u>

Bonds and Certificates of Indebtedness

In 2008, Redwood County issued Capital Improvement Plan Bonds (Series 2008A) for \$3,920,000 to finance the renovation of the Government Center and remodeling of the Courthouse. In 2013, Redwood County issued Law Enforcement Center (LEC) Bonds (Series 2013A) for \$3,375,000 to finance the renovation and remodel of the LEC. Also in 2013, Redwood County issued Recycling Facility Bonds for \$2,040,000 (Series 2013A) for both Redwood and Renville Counties, with Renville County paying Redwood County for half of the bonds. In 2016, Redwood County

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

3. Long-Term Debt

Bonds and Certificates of Indebtedness (Continued)

issued Capital Improvement Plan Refunding Bonds (Series 2016A) for \$1,170,000 to refund the 2008A issuance. Payments on bonds, other than the Recycling Facility Bonds, are made from the Debt Service Fund. Solid waste assessments pay for Redwood County's portion of the Recycling Facility Bonds, which payments are made from the Solid Waste Special Revenue Fund.

Type of Indebtedness	Final Maturity	Installment Amount	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2016
2013 General Obligation Law Enforcement Center Bonds, Series 2013A	2028	\$170,000 - \$265,000	2.00 - 3.20	\$ 3,375,000	\$ 2,805,000
Add: unamortized premium					<u>30,677</u>
Total Law Enforcement Center Bonds					<u>\$ 2,835,677</u>
2013 General Obligation Recycling Facility Bonds, Series 2013A	2028	\$70,000 - \$80,000	2.00 - 3.20	\$ 2,040,000	\$ 1,660,000
Add: unamortized premium					<u>18,324</u>
Total Recycling Facility Bonds					<u>\$ 1,678,324</u>
2008 General Obligation Capital Improvement Plan Bonds, Series 2008A	2024	\$170,000 - \$355,000	3.00 - 4.50	\$ 3,920,000	\$ 2,410,000
2016 General Obligation Capital Improvement Plan Refunding Bonds, Series 2016A	2024	\$225,000 - \$250,000	2.00	\$ 1,170,000	1,170,000
Less: unamortized discount					(13,353)
Add: unamortized premium					<u>38,995</u>
Total Improvement Bonds					<u>\$ 3,605,642</u>
Total General Obligation Bonds, Net					<u>\$ 8,119,643</u>

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

4. Debt Service Requirements

Debt service requirements at December 31, 2016, were as follows:

Year Ending December 31	General Obligation Bonds		Loans Payable	
	Principal	Interest	Principal	Interest
2017	\$ 580,000	\$ 225,832	\$ 20,990	\$ 876
2018	595,000	216,808	5,004	554
2019	2,235,000	164,104	5,105	454
2020	575,000	114,250	5,207	351
2021	580,000	102,256	5,312	247
2022 - 2026	2,635,000	303,089	8,331	213
2027 - 2028	845,000	27,120	-	-
Total	<u>\$ 8,045,000</u>	<u>\$ 1,153,459</u>	<u>\$ 49,949</u>	<u>\$ 2,695</u>

The clean water loans of \$81,884 for the Redwood-Cottonwood River Septic and \$40,312 for the Middle Minnesota Watershed SSTS are not included in the debt service requirements because fixed repayment schedules are not available.

5. Capital Leases

The County has entered into lease agreements as lessee for financing the acquisition of squad cars for the Sheriff's Department, copier leases for various departments, and a postage machine. 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. All capital lease payments are paid from the General Fund.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

5. Capital Leases (Continued)

Capital leases consist of the following at December 31, 2016:

Lease	Final Maturity	Installments	Payment Amount	Original Issue Amount	Outstanding Balance December 31, 2016
2013 Ford Interceptor Utility	2017	Monthly	\$ 662	\$ 35,350	\$ 656
2013 Ford Interceptor Sedan	2017	Monthly	601	32,433	596
2013 Ford Interceptor Utility	2017	Monthly	562	31,261	3,918
2013 Chevrolet Tahoe	2017	Monthly	749	34,538	2,212
2014 Ford Interceptor	2018	Monthly	568	31,968	8,988
2015 Ford Interceptor	2019	Monthly	567	31,355	15,747
2016 Ford Interceptor	2020	Monthly	563	31,209	20,461
2016 Ford Interceptor	2020	Monthly	563	30,698	20,460
Administration Sharp copier	2019	Monthly	333	10,687	6,646
Sheriff Sharp copier	2019	Monthly	195	9,066	4,646
License Center copier	2017	Monthly	93	3,000	667
Attorney copier	2017	Monthly	163	4,693	1,016
Extension copier	2019	Monthly	89	4,495	2,203
Agriculture and Zoning copier	2021	Monthly	130	6,183	5,402
A/T Neopost postage machine	2018	Quarterly	455	5,987	2,598
Total Capital Leases					<u>\$ 96,216</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2016, were as follows:

Year Ending December 31	Governmental Activities
2017	\$ 47,251
2018	32,777
2019	19,199
2020	2,685
2021	389
Total minimum lease payments	<u>\$ 102,301</u>
Less: amount representing interest	<u>(6,085)</u>
Present Value of Minimum Lease Payments	<u>\$ 96,216</u>

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds					
Series 2008A	\$ 2,655,000	\$ -	\$ 245,000	\$ 2,410,000	\$ 255,000
Series 2013A Law Enforcement Center	3,005,000	-	200,000	2,805,000	205,000
Series 2013A Recycling Facility	1,780,000	-	120,000	1,660,000	120,000
Series 2016A Crossover Refunding	-	1,170,000	-	1,170,000	-
Add: unamortized premiums	53,455	44,566	10,025	87,996	-
Less: unamortized discounts	(15,261)	-	(1,908)	(13,353)	-
Total bonds payable	\$ 7,478,194	\$ 1,214,566	\$ 573,117	\$ 8,119,643	\$ 580,000
Clean water loans payable	187,909	31,089	46,853	172,145	20,990
Compensated absences	796,760	610,418	561,082	846,096	100,262
Capital leases	104,129	68,091	76,004	96,216	43,474
Total Long-Term Liabilities	\$ 8,566,992	\$ 1,924,164	\$ 1,257,056	\$ 9,234,100	\$ 744,726

7. Crossover Refunding

In 2016, the County issued \$1,170,000 General Obligation Capital Improvement Plan Refunding Bonds, Series 2016A. Proceeds from the sale of the bonds will be used to crossover refund \$1,170,000 of the \$3,920,000 General Obligation Capital Improvement Plan Bonds, Series 2008A. Maturities 2020 through 2024, inclusive, will be called for redemption on February 1, 2019, at a price of par plus accrued interest. The County refunded the Series 2008A bonds to obtain an economic gain (difference between the present value of debt service payments on the old and new debt) of \$77,764.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

7. Crossover Refunding (Continued)

The bonds are valid and binding general obligations of Redwood County, payable from ad valorem taxes. The full faith and credit of the County is pledged to their payment, and the County has validly obligated itself to levy additional ad valorem taxes upon all taxable property within the County without limitation to amount, in the event of any deficiency in the debt service account established for this issue.

Principal due with respect to the \$1,170,000 General Obligation Capital Improvement Plan Refunding Bonds, Series 2016A, is payable annually on February 1 commencing on February 1, 2020, and interest due with respect to the bonds is payable semi-annually on February 1 and August 1 of each year commencing August 1, 2017.

D. Fund Balances

The summary of fund balance classifications is as follows:

	Special Revenue						Total
	General	Road and Bridge	Human Services	Solid Waste	Ditch	Springdale Watershed	
Nonspendable							
Inventories	\$ -	\$ 130,062	\$ -	\$ -	\$ -	\$ -	\$ 130,062
Loans receivable	1,123,279	-	-	1,550,000	-	-	2,673,279
Missing heirs	2,002	-	-	-	-	-	2,002
Prepaid items	26,379	14,425	-	-	126	-	40,930
Total nonspendable	\$ 1,151,660	\$ 144,487	\$ -	\$ 1,550,000	\$ 126	\$ -	\$ 2,846,273
Restricted							
Attorney's forfeited property	\$ 24,312	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24,312
Broadband grant study	1,847	-	-	-	-	-	1,847
Child advocacy center contribution	94	-	-	-	-	-	94
Debt service	-	-	-	-	-	2,232,084	2,232,084
Ditch maintenance, repair, and other	-	-	-	-	1,391,521	-	1,391,521
Enhanced 911	166,702	-	-	-	-	-	166,702
Gun permit fees	86,748	-	-	-	-	-	86,748
Highway allotments	-	1,685,488	-	-	-	-	1,685,488
Invasive species	44,944	-	-	-	-	-	44,944
Law library	54,227	-	-	-	-	-	54,227
Recorder's compliance	32,504	-	-	-	-	-	32,504
Recorder's technology fund	149,591	-	-	-	-	-	149,591
Septic system grant	19,127	-	-	-	-	-	19,127
Septic/sewer loans	1,259	-	-	-	-	-	1,259
Sheriff's contingency	2,546	-	-	-	-	-	2,546
Sheriff's forfeited property	29,589	-	-	-	-	-	29,589
Veteran cemetery contributions	230	-	-	-	-	-	230
Veteran service office Grant	8,423	-	-	-	-	-	8,423
Victim assistance	10,657	-	-	-	-	-	10,657
Waste to energy Contribution	-	-	-	45,000	-	-	45,000
Total restricted	\$ 632,800	\$ 1,685,488	\$ -	\$ 45,000	\$ 1,391,521	\$ 2,232,084	\$ 5,986,893

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

D. Fund Balances (Continued)

	Special Revenue						Total
	General	Road and Bridge	Human Services	Solid Waste	Ditch	Springdale Watershed	
Committed							
Pictometry contract	\$ 73,036	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 73,036
RCEDA revolving loan 2008	166,113	-	-	-	-	-	166,113
RCEDA revolving loan 2011	125,010	-	-	-	-	-	125,010
Retiree health insurance	3,662	-	-	-	-	-	3,662
Sheriff canteen	25,764	-	-	-	-	-	25,764
Veteran's cemetery	1,000,000	-	-	-	-	-	1,000,000
WESCAP valley area transit	2,400	-	-	-	-	-	2,400
Total committed	\$ 1,395,985	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,395,985
Assigned							
Assessor tax court	\$ 80,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 80,000
Attorney driving diversion program	100	-	-	-	-	-	100
Broadband	25,000	261,374	-	-	13,001	-	25,000
Compensated absences	571,721	-	-	-	-	-	846,096
Computer AS400	25,000	-	-	-	-	-	25,000
Computer miscellaneous	10,057	-	-	-	-	-	10,057
Computer timekeeping	10,000	-	-	-	-	-	10,000
Computer virtual machine (VM)	19,250	-	-	-	-	-	19,250
Computer voice over IP (VOIP)	50,000	-	-	-	-	-	50,000
Courthouse car	20,000	-	-	-	-	-	20,000
Election	172,583	-	-	-	-	-	172,583
Employee flu shots	2,000	-	-	-	-	-	2,000
Flood coverage	740	-	-	-	-	-	740
Forfeited tax	146,508	-	-	-	-	-	146,508
Future ditch loans	-	-	-	-	926,428	-	926,428
Grand jury	74,787	-	-	-	-	-	74,787
Highways and streets	-	2,396,087	-	-	-	-	2,396,087
Human services	-	-	720,527	-	-	-	720,527
Law enforcement dog fund	2,428	-	-	-	-	-	2,428
Maintenance equipment	30,000	-	-	-	-	-	30,000
OPEB actuary	3,500	-	-	-	-	-	3,500
Ordinance revision	35,000	-	-	-	-	-	35,000
Park improvements	25,000	-	-	-	-	-	25,000
Postemployment benefits	500,000	19,350	-	-	-	-	519,350
Public health	200,000	-	-	-	-	-	200,000
Renovation - courthouse	3,600,000	-	-	-	-	-	3,600,000
Renovation - license center	65,000	-	-	-	-	-	65,000
Restorative justice	3,500	-	-	-	-	-	3,500
Safety committee	7,500	-	-	-	-	-	7,500
Sand Creek staff training	3,000	-	-	-	-	-	3,000
Sheriff vehicle	73,713	-	-	-	-	-	73,713
Solid waste	-	-	-	353,594	-	-	353,594
Staff development	5,750	-	-	-	-	-	5,750
VSO van purchase	19,436	-	-	-	-	-	19,436
Workers' compensation/property casualty insurance	585,550	-	-	-	-	-	585,550
Total assigned	\$ 6,367,123	\$ 2,676,811	\$ 720,527	\$ 353,594	\$ 939,429	\$ -	\$ 11,057,484
Unassigned	\$ 3,349,031	\$ -	\$ -	\$ -	\$ -	\$ (204)	\$ 3,348,827
Total Fund Balances	\$ 12,896,599	\$ 4,506,786	\$ 720,527	\$ 1,948,594	\$ 2,331,076	\$ (204)	\$ 24,635,462

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. Plan Description

All full-time and certain part-time employees of Redwood County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Plan, the Public Employees Police and Fire Plan, and the Local Government Correctional Service Retirement Plan (the Public Employees Correctional Plan), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

The General Employees Retirement Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Retirement Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service. No County employees belong to either the Basic Plan or the Minneapolis Employees Retirement Fund.

Police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Plan (accounted for in the Police and Fire Fund). For members first hired after June 30, 2010, but before July 1, 2014, benefits vest on a graduated schedule starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years. Benefits for members first hired after June 30, 2014, vest on a prorated basis from 50 percent after 10 years and increasing 5 percent for each year of service until fully vested after 20 years.

Local government employees of a county-administered facility who are responsible for the direct security, custody, and control of the county correctional facility and its inmates are covered by the Public Employees Correctional Plan (accounted for in

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. Plan Description (Continued)

the Correctional Fund). For members hired after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years.

2. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual 1.0 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

The benefit provisions stated in the following paragraph 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 their public service.

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 General Employees Retirement Plan Coordinated Plan members. Members hired prior to July 1, 1989, receive 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 Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 1.7 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989. For Public Employees Police and Fire Plan members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Plan members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

For General Employees Retirement Plan members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. For Public Employees Police and Fire Plan and Public Employees Correctional Plan members, normal retirement age is 55, and for members who were hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90. Disability benefits are available for vested members and are based on years of service and average high-five salary.

3. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Retirement Plan Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in 2016. Public Employees Police and Fire Plan members were required to contribute 10.80 percent of their annual covered salary in 2016. Public Employees Correctional Plan members were required to contribute 5.83 percent of their annual covered salary in 2016.

In 2016, the County was required to contribute the following percentages of annual covered salary:

General Employees Retirement Plan	
Coordinated Plan members	7.50%
Public Employees Police and Fire Plan	16.20
Public Employees Correctional Plan	8.75

The employee and employer contribution rates did not change from the previous year.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

3. Contributions (Continued)

The County's contributions for the year ended December 31, 2016, to the pension plans were:

General Employees Retirement Plan	\$	279,393
Public Employees Police and Fire Plan		126,981
Public Employees Correctional Plan		49,708

The contributions are equal to the contractually required contributions as set by state statute.

4. Pension Costs

General Employees Retirement Plan

At December 31, 2016, the County reported a liability of \$4,766,149 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.0587 percent. It was 0.0615 percent measured as of June 30, 2015. The County recognized pension expense of \$594,062 for its proportionate share of the General Employees Retirement Plan's pension expense.

The County also recognized \$18,540 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$6 million to the General Employees Retirement Plan each year, starting September 15, 2015, through September 15, 2031.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

County's proportionate share of the net pension liability	\$	4,766,149
State of Minnesota's proportionate share of the net pension liability associated with the County		62,178
Total	\$	4,828,327

The County reported its proportionate share of the General Employees Retirement Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 392,057
Changes in actuarial assumptions	933,216	-
Difference between projected and actual investment earnings	914,938	-
Changes in proportion	-	212,178
Contributions paid to PERA subsequent to the measurement date	151,149	-
Total	\$ 1,999,303	\$ 604,235

The \$151,149 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2017	\$ 322,174
2018	322,174
2019	427,410
2020	172,161

Public Employees Police and Fire Plan

At December 31, 2016, the County reported a liability of \$3,130,276 for its proportionate share of the Public Employees Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.078 percent. It was 0.078 percent measured as of June 30, 2015. The County recognized pension expense of \$542,169 for its proportionate share of the Public Employees Police and Fire Plan's pension expense.

The County also recognized \$7,020 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Public Employees Police and Fire Plan. Legislation requires the State of Minnesota to contribute \$9 million to the Police and Fire Plan each year, starting in fiscal year 2014, until the plan is 90 percent funded.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Plan (Continued)

The County reported its proportionate share of the Public Employees Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 359,102
Changes in actuarial assumptions	1,722,728	-
Difference between projected and actual investment earnings	477,703	-
Contributions paid to PERA subsequent to the measurement date	68,716	-
Total	\$ 2,269,147	\$ 359,102

The \$68,716 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2017	\$ 396,053
2018	396,053
2019	396,053
2020	357,449
2021	295,721

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Correctional Plan

At December 31, 2016, the County reported a liability of \$1,095,942 for its proportionate share of the Public Employees Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.30 percent. It was 0.29 percent measured as of June 30, 2015. The County recognized pension expense of \$309,980 for its proportionate share of the Public Employees Correctional Plan's pension expense.

The County reported its proportionate share of the Public Employees Correctional Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 858	\$ 11,443
Changes in actuarial assumptions	698,247	-
Difference between projected and actual investment earnings	122,166	-
Changes in proportion	1,537	-
Contributions paid to PERA subsequent to the measurement date	26,536	-
Total	\$ 849,344	\$ 11,443

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Correctional Plan (Continued)

The \$26,536 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2017	\$ 260,766
2018	260,766
2019	266,299
2020	23,534

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2016, was \$1,446,211.

5. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.50 percent per year
Active member payroll growth	3.25 percent per year
Investment rate of return	7.50 percent

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants in the General Employees Retirement Plan were based on RP-2014 tables, while mortality rates for Public Employees Police and Fire Plan and Public Employees Correctional Plan were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Plan and the Public Employees Police and Fire Plan, cost of living benefit increases for retirees are assumed to be 1.0 percent. Cost of living benefit increases for retirees are assumed to be 2.5 percent for the Public Employees Correctional Plan.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Plan was for the period 2008 through 2015. The experience study for the Public Employees Police and Fire Plan was for the period 2004 through 2009. The experience study for the Public Employees Correctional Plan was for the period 2006 through 2011.

On August 16, 2016, an updated experience study was done for PERA's Public Employees Police and Fire Plan for the period 2011 through 2015, which would result in a larger pension liability. However, PERA will implement the changes in assumptions for its June 30, 2017, estimate of pension liability.

The long-term expected rate of return on pension plan investments is 7.5 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	45%	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2016, a reduction of the 7.90 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Retirement Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. In the Public Employees Police and Fire Plan and the Public Employees Correctional Plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056, and June 30, 2058, respectively. Beginning in fiscal years ended June 30, 2057, for the Police and Fire Plan and June 30, 2059, for the Public Employees Correctional Plan, when projected benefit payments exceed the Plans' projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85 percent based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60 percent for the Public Employees Police and Fire Plan and 5.31 percent for the Public Employees Correctional Plan was determined that produced approximately the same present value of the projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50 percent applied to all years of projected benefits through the point of asset depletion and 2.85 percent thereafter.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

7. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2016:

General Employees Retirement Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Public Employees Police and Fire Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.60 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions (Continued)

Public Employees Correctional Plan

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.31 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

8. Pension Liability Sensitivity

The following presents the County's proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

	Proportionate Share of the					
	General Employees Retirement Plan		Public Employees Police and Fire Plan		Public Employees Correctional Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	6.50%	\$ 6,769,344	4.60%	\$ 4,381,971	4.31%	\$ 1,650,150
Current	7.50	4,766,149	5.60	3,130,276	5.31	1,095,942
1% Increase	8.50	3,116,061	6.60	2,107,546	6.31	663,276

9. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits (Continued)

B. Defined Contribution Plan

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2016, were:

	Employee	Employer
Contribution amount	\$ 5,721	\$ 5,721
Percentage of covered payroll	5%	5%

C. Other Postemployment Benefits (OPEB)

Plan Description

Redwood County pays the health insurance for qualified retired employees and elected officials. Employees who retire between age 55 and 65 with 25 years of public service, and with at least 10 years of service with Redwood County, qualify for health insurance benefits. Elected officials qualify if they serve a minimum of 2 years as an elected Redwood County official. The elected official and his or her surviving spouse and dependents will receive one year of paid or partially paid medical insurance for every 2 years of service to Redwood County. Additional years, not a multiple of 2, are prorated.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Plan Description (Continued)

A maximum of six years of paid insurance is available to elected officials. On November 30, 2010, the Board took action to change the health insurance benefits for elected officials. For those elected officials taking office on or before January 4, 2011, the following provisions apply as above, except the County will not exceed the actual cost of the County's \$500 deductible plan for the "Retiree and Spouse, both 65 years of age or over" rate. For those elected officials taking office after January 4, 2011, the following provisions apply. The elected official who retires between age 55 and 65, with at least 10 years of service with Redwood County, qualifies for health insurance benefits.

Funding Policy

The amount paid by the County will not exceed the amount that the County contributes to employees pursuant to policy 6.16, as may be amended from time to time by the County Board. For retired employees, the County rates are based on the County's group health policy rates in effect at the time of retirement and are a fixed amount until discontinued at age 65 and after a maximum of six years for elected officials. As of year-end December 31, 2016, the County has four eligible participants (three elected officials and one employee). The County finances the plan on a pay-as-you-go basis. During 2016, the County expended \$50,701 for these benefits.

The annual OPEB cost (expense) is allocated based on the County's contributions to retiree premiums through the General Fund, the Solid Waste Special Revenue Fund, and the Ditch Special Revenue Fund.

Annual OPEB Cost and Net OPEB Obligation

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

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	\$	96,542
Interest on net OPEB obligation		10,157
Adjustment to ARC		(17,274)
Annual OPEB cost (expense)	\$	89,425
Contributions made during the year		(46,634)
Increase in net OPEB obligation	\$	42,791
Net OPEB Obligation - Beginning of Year		338,573
Net OPEB Obligation - End of Year	\$	381,364

The County's annual OPEB cost; the percentage of annual OPEB cost contributed to the plan; and the net OPEB obligation for the years ended December 31, 2014, 2015, and 2016, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2014	\$ 90,598	\$ 71,450	78.9%	\$ 301,919
December 31, 2015	90,196	53,542	59.4	338,573
December 31, 2016	89,425	46,634	52.1	381,364

Funded Status and Funding Progress

As of January 1, 2014, the most recent actuarial valuation date, the County had no assets to fund the plan. The actuarial accrued liability for benefits was \$788,652 and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$788,652. The covered payroll (annual payroll of active employees covered by the plan) was \$4,582,346, and the ratio of the UAAL to the covered payroll was 17.2 percent.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions

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

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

In the January 1, 2014, actuarial valuation, the projected unit credit with linear proration to decrement actuarial cost method was used.

The annual health care cost trend has been revised to an initial rate of 6.5 percent for fiscal year ending December 31, 2017, decreasing by 0.5 percent annually to an ultimate rate of 4.5 percent. A 3.5 percent per year inflation rate is included. The UAAL is being amortized over 30 years using a 4.5 percent interest rate discount factor. The remaining amortization period at December 31, 2016, was 21 years.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. To manage these risks, the County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For all other risk, other than pertaining to health insurance, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for 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 \$500,000 per claim in 2016 and 2017. 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.

On October 15, 2013, Redwood County entered into a joint powers agreement with three local counties (Murray, Lyon, and Swift) and Southwest Health and Human Services to form the Minnesota Public Sector Collaborative to self-insure health insurance as of January 1, 2014. Premiums will be withheld from employees and transferred into an internal service fund. Claims are managed and paid by a third party, and the County will be billed weekly, in aggregate, for claims incurred.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

The County established a limited risk management program for health coverage in 2014. Premiums are paid into the internal service fund by all other funds and are available to pay claims, claim reserves, and administrative costs of the program. The County has retained risk up to a \$60,000 stop-loss per person insured (employee and eligible dependent) per year (\$1,000,000 aggregate) for the health plan. Liabilities of the internal service fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

The December 31, 2016, liability is determined based on detailed reports received by the County from the third-party administrator for claims incurred, adjusted, and paid through February 28, 2017. Changes in the balances of claims liabilities during 2015 and 2016 are as follows:

	2015	2016
Unpaid claims, January 1	\$ 57,144	\$ 58,851
Incurred claims	1,013,079	932,756
Claims payments	(1,011,372)	(948,952)
Unpaid Claims, December 31	\$ 58,851	\$ 42,655

B. Contingent Liabilities

Amounts received or receivable from grantor 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 government.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Contingent Liabilities (Continued)

Lincoln-Pipestone Rural Water System

At December 31, 2016, the Lincoln-Pipestone Rural Water System had \$48,946,000 of general obligation bonds and other loans outstanding through 2052. The bonds were issued by some of the participating counties in the Rural Water System to finance the construction of water system expansions and improvements.

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

C. Joint Ventures

Lincoln-Pipestone Rural Water System

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Lincoln-Pipestone Rural Water System (Continued)

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

Bonds were issued by Lincoln, Nobles, and Yellow Medicine Counties to finance the construction of the Rural Water System. Costs assessed to municipalities and special assessments levied against benefited properties pay approximately 85 percent of the amount necessary to retire principal and interest on the bonds. The remainder of the funds necessary to retire the outstanding bonds and interest will be provided by appropriations from the Lincoln-Pipestone Rural Water System. Outstanding obligations at December 31, 2016, were \$48,946,000.

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

Red Rock Rural Water System

The Red Rock Rural Water System was established pursuant to Minn. Stat. ch. 116A through a joint powers agreement pursuant to Minn. Stat. § 471.59 and under the jurisdiction of the Fifth Judicial District. Brown, Cottonwood, Jackson, Lyon, Martin, 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 cost of providing these services is recovered through user charges.

The governing body is composed of nine members appointed to three-year terms 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 in the financial statements of the Red Rock Rural Water System.

Complete financial information can be obtained from the Red Rock Rural Water System, 305 West Whited Street, Jeffers, Minnesota 56145.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Redwood/Renville Regional Solid Waste Authority

The Redwood/Renville Regional Solid Waste Authority (RRRSWA) Joint Powers Agreement was established by an agreement between Redwood County and Renville County under the authority of Minn. Stat. § 471.59. The agreement was made to facilitate development and operation of an integrated solid waste management system to serve the counties and to provide for a separate, free-standing public entity.

The governing board is composed of seven members. Three members are appointed by the Redwood County Board of Commissioners. Three members are appointed by the Renville County Board of Commissioners. One at-large member is jointly appointed by the counties.

On June 4, 2013, Redwood and Renville Counties each loaned the RRRSWA \$1,000,000, with a two percent interest rate, having only interest paid in the first three years of operation. After the initial three years of operation, a repayment schedule will be set.

In August 2013, Redwood County issued \$2,040,000 General Obligation Recycling Facility Bonds, Series 2013A, which was paid to the RRRSWA. Renville County pays Redwood County for its share of the principal and interest payments on the general obligation bonds. Redwood County's portion of the bonds are paid from solid waste assessments.

On November 17, 2015, Redwood and Renville Counties each loaned the RRRSWA \$1,600,000, with an interest rate of two percent. Principal payments will begin in 2017.

Renville County is the fiscal host and includes the RRRSWA as an agency fund in its financial statements.

Complete financial statements of the Redwood/Renville Regional Solid Waste Authority can be obtained at 921 West Bridge Street, Redwood Falls, Minnesota 56283.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Southwest Health and Human Services

Southwest Health and Human Services (SWHHS) was formed pursuant to Minn. Stat. ch. 145A and §§ 471.59 and 393.01, subd. 7, by Lincoln, Lyon, Murray, and Pipestone Counties. SWHHS began official operation on January 1, 2011, and performs human service and public health functions. Funding is provided by the member counties based on consideration of: (1) population based on the most recent national census; (2) tax capacity; and (3) the most recent three-year average Social Services Expenditure and Grant Reconciliation Report (SEAGR), each factor to be weighted equally.

Rock County's health and human services functions were assumed by SWHHS as of January 1, 2012. Redwood County's health and human services functions and Pipestone County's human service function joined SWHHS as of January 1, 2013.

SWHHS is governed by the:

- Joint Health and Human Services Board ("Joint Board") - responsible for financial, personnel, budget, and general administration of the agency and is made up of one County Commissioner (or alternate) from each County serving on the Community Health Board and one County Commissioner (or alternate) serving on the Human Services Board.
- Human Services Board - responsible for duties set forth in Minn. Stat. ch. 393 and made up of two County Commissioners appointed annually and one layperson to be appointed consistent with the requirement of the Commissioner of Human Services.
- Community Health Board - responsible for all duties set forth in Minn. Stat. ch. 145A and made up of one County Commissioner and one alternate from each member County unless such County shall have a population in excess of twice that of any other member County, in which case, it shall have two Commissioners and two alternates.

Financing is provided by state and federal grants and appropriations from member counties. Redwood County's contribution in 2016 for the human services function was \$2,297,886, and its contribution to the health services function was \$209,570.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwest Health and Human Services (Continued)

Complete financial statements of Southwest Health and Human Services can be obtained at 607 West Main, Marshall, Minnesota 56258.

Advocate, Connect, Educate (A.C.E.) of Southwest Minnesota

Redwood County, in conjunction with Cottonwood, Lincoln, Lyon, Murray, Nobles, and Rock Counties and the Southwest Regional Development Commission, pursuant to Minn. Stat. § 471.59, have formed an agreement to coordinate the delivery of volunteer services to nonprofit community service entities and local units of government meeting the guidelines for receiving volunteer services under the authority of the counties. The entity known as the Retired and Senior Volunteer Program of Southwest Minnesota (RSVP of Southwest Minnesota) changed its name to A.C.E. of Southwest Minnesota as of January 1, 2014. The Board comprises one voting member from each participating County and one voting member of the A.C.E. of Southwest Minnesota Advisory Council. In 2016, Redwood County made contributions of \$24,891 to A.C.E. of Southwest Minnesota.

Brown-Lyon-Redwood-Renville Drug Task Force

As of January 1, 2011, the Brown-Lyon-Redwood Drug Task Force changed its name to the Brown-Lyon-Redwood-Renville Drug Task Force. The Brown-Lyon-Redwood-Renville Drug Task Force was established between Brown, Lyon, and Redwood Counties and the Cities of Marshall, New Ulm, and Redwood Falls, pursuant to Minn. Stat. § 471.59, as of January 1, 2010. Renville County joined the Task Force as of January 1, 2011. The Task Force was established to create a cooperative law enforcement effort that provides drug enforcement services for member organizations.

The Task Force is governed by an Advisory Board consisting of one appointed member from each party to the agreement. Financing is provided through contributions of the participating counties, grants, and forfeitures. During 2016, Redwood County paid \$50,264 to the Task Force.

Fiscal agent responsibilities for the Task Force are with the City of New Ulm. The Drug Task Force is reported as an agency fund in the City of New Ulm's financial statements.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Plum Creek Library System

Redwood County, along with 19 cities and 8 other counties participates in the Plum Creek Library System. The Plum Creek Library System was created as a public library service on May 29, 1974, by the act of contracting with various public libraries in its region to provide expanded library service, with the additional purpose of furthering the public interest by providing the potential for extending public library services into areas without such services. The Plum Creek Library System is governed by a board of trustees which consists of two representatives from each county. One is appointed by the County Commissioners, the second from the board of the participating libraries. During 2016, Redwood County provided \$101,993 to the Plum Creek Library System.

Complete financial statements of the Plum Creek Library System can be obtained at 290 South Lake Street, P. O. Box 697, Worthington, Minnesota 56187.

D. Jointly-Governed Organizations

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

Area II Minnesota River Basin Project

The Area II Minnesota River Basin Project provides cost-share and technical assistance for the implementation of flood reduction measures to the area between the Cities of Ortonville and Mankato. During the year, Redwood County contributed \$11,439 to the Project.

Redwood-Cottonwood Rivers Control Area

The Redwood-Cottonwood Rivers Control Area (RCRCA) works to improve water quality, reduce erosion, and enhance recreational opportunities by providing education, outreach, monitoring, and technical assistance within the boundaries of the watersheds of the Redwood and Cottonwood Rivers for the participating counties. The RCRCA consists of Brown, Cottonwood, Lincoln, Lyon, Murray, Pipestone, Redwood, and Yellow Medicine Counties. During 2016, Redwood County contributed \$24,825 to the RCRCA.

REQUIRED SUPPLEMENTARY INFORMATION

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 6,333,424	\$ 6,333,424	\$ 6,342,646	\$ 9,222
Other taxes	9,300	9,300	10,726	1,426
Special assessments	36,969	36,969	43,668	6,699
Licenses and permits	57,130	57,130	72,387	15,257
Intergovernmental	1,197,450	1,287,743	1,397,442	109,699
Charges for services	665,075	665,075	692,295	27,220
Gifts and contributions	10,000	12,100	9,556	(2,544)
Investment earnings	55,000	55,000	181,294	126,294
Miscellaneous	451,130	453,130	501,686	48,556
Total Revenues	\$ 8,815,478	\$ 8,909,871	\$ 9,251,700	\$ 341,829
Expenditures				
Current				
General government				
Commissioners	\$ 248,360	\$ 248,360	\$ 239,552	\$ 8,808
Law library	5,000	5,000	6,429	(1,429)
County administration	445,426	445,426	327,882	117,544
Administrator	313,483	313,483	307,152	6,331
Auditor-Treasurer	383,165	383,165	379,734	3,431
License center	187,432	187,432	169,335	18,097
Assessor	469,392	469,392	409,099	60,293
Elections	67,419	67,419	61,411	6,008
Computer	366,870	366,870	329,306	37,564
Attorney	473,904	473,904	461,104	12,800
Recorder	286,260	286,260	268,254	18,006
Buildings and plant	806,369	806,369	665,062	141,307
Veterans service officer	206,126	206,126	176,166	29,960
Community health	12,450	12,450	12,446	4
Other general government	-	-	2,037	(2,037)
Total general government	\$ 4,271,656	\$ 4,271,656	\$ 3,814,969	\$ 456,687
Public safety				
Sheriff	\$ 2,859,465	\$ 2,937,765	\$ 2,780,385	\$ 157,380
Coroner	15,000	15,000	7,559	7,441
Child advocacy center	-	80,623	92,998	(12,375)
E-911 system	217,400	217,900	178,745	39,155
Probation and parole	287,591	287,591	263,374	24,217
Restorative justice	70,596	70,596	67,280	3,316
Sentencing to Service	69,138	91,138	79,955	11,183
Emergency management	82,837	82,837	77,129	5,708
Other public safety	22,600	22,600	54,518	(31,918)
Total public safety	\$ 3,624,627	\$ 3,806,050	\$ 3,601,943	\$ 204,107

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Health				
Community health	\$ 64,000	\$ -	\$ -	\$ -
Culture and recreation				
Museum	\$ 2,000	\$ 2,000	\$ 1,771	\$ 229
Parks	166,167	166,167	142,866	23,301
Minnesota trails	87,806	87,806	83,416	4,390
Other	57,500	57,500	57,200	300
Total culture and recreation	\$ 313,473	\$ 313,473	\$ 285,253	\$ 28,220
Conservation of natural resources				
Extension	\$ 105,224	\$ 105,224	\$ 99,726	\$ 5,498
Agricultural inspection	293,987	293,987	328,051	(34,064)
Water quality loan program	25,000	25,000	58,075	(33,075)
Other	176,914	176,914	184,457	(7,543)
Total conservation of natural resources	\$ 601,125	\$ 601,125	\$ 670,309	\$ (69,184)
Economic development				
Other	\$ 80,000	\$ 80,000	\$ 103,909	\$ (23,909)
Intergovernmental				
Health	\$ 209,570	\$ 209,570	\$ 209,570	\$ -
Library	113,442	113,442	101,993	11,449
Total intergovernmental	\$ 323,012	\$ 323,012	\$ 311,563	\$ 11,449
Debt service				
Principal	\$ 46,852	\$ 46,852	\$ 122,857	\$ (76,005)
Interest	1,703	1,703	9,114	(7,411)
Total debt service	\$ 48,555	\$ 48,555	\$ 131,971	\$ (83,416)
Total Expenditures	\$ 9,326,448	\$ 9,443,871	\$ 8,919,917	\$ 523,954

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

***EXHIBIT A-1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Excess of Revenues Over (Under)				
Expenditures	<u>\$ (510,970)</u>	<u>\$ (534,000)</u>	<u>\$ 331,783</u>	<u>\$ 865,783</u>
Other Financing Sources (Uses)				
Capital leases	\$ -	\$ -	\$ 68,091	\$ 68,091
Loans issued	25,000	25,000	31,089	6,089
Proceeds from sale of capital assets	-	-	192,682	192,682
Total Other Financing Sources (Uses)	<u>\$ 25,000</u>	<u>\$ 25,000</u>	<u>\$ 291,862</u>	<u>\$ 266,862</u>
Net Change in Fund Balance	<u>\$ (485,970)</u>	<u>\$ (509,000)</u>	<u>\$ 623,645</u>	<u>\$ 1,132,645</u>
Fund Balance - January 1	<u>12,272,954</u>	<u>12,272,954</u>	<u>12,272,954</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 11,786,984</u></u>	<u><u>\$ 11,763,954</u></u>	<u><u>\$ 12,896,599</u></u>	<u><u>\$ 1,132,645</u></u>

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,715,900	\$ 1,715,900	\$ 1,718,281	\$ 2,381
Intergovernmental	4,679,100	4,679,100	7,602,372	2,923,272
Charges for services	2,000	2,000	15,045	13,045
Investment earnings	2,000	2,000	24,502	22,502
Miscellaneous	45,000	45,000	92,318	47,318
Total Revenues	\$ 6,444,000	\$ 6,444,000	\$ 9,452,518	\$ 3,008,518
Expenditures				
Current				
Highways and streets				
Administration	\$ 482,000	\$ 482,000	\$ 453,044	\$ 28,956
Maintenance	2,133,000	2,133,000	2,043,210	89,790
Construction	3,001,000	3,001,000	5,866,627	(2,865,627)
Equipment and maintenance shops	759,000	759,000	672,680	86,320
Total highways and streets	\$ 6,375,000	\$ 6,375,000	\$ 9,035,561	\$ (2,660,561)
Intergovernmental				
Highways and streets	400,000	400,000	535,485	(135,485)
Total Expenditures	\$ 6,775,000	\$ 6,775,000	\$ 9,571,046	\$ (2,796,046)
Excess of Revenues Over (Under) Expenditures	\$ (331,000)	\$ (331,000)	\$ (118,528)	\$ 212,472
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	-	425	425
Net Change in Fund Balance	\$ (331,000)	\$ (331,000)	\$ (118,103)	\$ 212,897
Fund Balance - January 1	4,646,792	4,646,792	4,646,792	-
Increase (decrease) in inventories	-	-	(21,903)	(21,903)
Fund Balance - December 31	\$ 4,315,792	\$ 4,315,792	\$ 4,506,786	\$ 190,994

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,198,444	\$ 2,198,444	\$ 2,201,625	\$ 3,181
Intergovernmental	<u>99,442</u>	<u>99,442</u>	<u>94,647</u>	<u>(4,795)</u>
Total Revenues	\$ 2,297,886	\$ 2,297,886	\$ 2,296,272	\$ (1,614)
Expenditures				
Intergovernmental				
Human services	<u>2,297,886</u>	<u>2,297,886</u>	<u>2,297,886</u>	<u>-</u>
Net Change in Fund Balance	\$ -	\$ -	\$ (1,614)	\$ (1,614)
Fund Balance - January 1	<u>722,141</u>	<u>722,141</u>	<u>722,141</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 722,141</u></u>	<u><u>\$ 722,141</u></u>	<u><u>\$ 720,527</u></u>	<u><u>\$ (1,614)</u></u>

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 613,243	\$ 613,243	\$ 607,913	\$ (5,330)
Licenses and permits	-	-	2,150	2,150
Intergovernmental	164,828	164,828	233,844	69,016
Investment earnings	-	-	31,000	31,000
Miscellaneous	-	-	35,553	35,553
Total Revenues	\$ 778,071	\$ 778,071	\$ 910,460	\$ 132,389
Expenditures				
Current				
Sanitation				
Solid waste	\$ -	\$ -	\$ 12,985	\$ (12,985)
Recycling	-	-	3,692	(3,692)
Hazardous waste	-	-	1,456	(1,456)
Total sanitation	\$ -	\$ -	\$ 18,133	\$ (18,133)
Intergovernmental				
Solid waste	\$ 613,243	\$ 613,243	\$ 721,381	\$ (108,138)
Debt service				
Principal	\$ 120,000	\$ 120,000	\$ 120,000	\$ -
Interest	44,615	44,615	44,615	-
Administrative (fiscal) charges	213	213	514	(301)
Total debt service	\$ 164,828	\$ 164,828	\$ 165,129	\$ (301)
Total Expenditures	\$ 778,071	\$ 778,071	\$ 904,643	\$ (126,572)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 5,817	\$ 5,817
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	-	52,000	52,000
Net Change in Fund Balance	\$ -	\$ -	\$ 57,817	\$ 57,817
Fund Balance - January 1	1,890,777	1,890,777	1,890,777	-
Fund Balance - December 31	\$ 1,890,777	\$ 1,890,777	\$ 1,948,594	\$ 57,817

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

Page 93

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-5

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 257,992	\$ 257,992	\$ 284,718	\$ 26,726
Intergovernmental	-	-	183	183
Investment earnings	45,000	45,000	8,334	(36,666)
Miscellaneous	500	500	226	(274)
Total Revenues	\$ 303,492	\$ 303,492	\$ 293,461	\$ (10,031)
Expenditures				
Current				
Conservation of natural resources				
Other	153,137	153,137	523,482	(370,345)
Net Change in Fund Balance	\$ 150,355	\$ 150,355	\$ (230,021)	\$ (380,376)
Fund Balance - January 1	2,561,097	2,561,097	2,561,097	-
Fund Balance - December 31	\$ 2,711,452	\$ 2,711,452	\$ 2,331,076	\$ (380,376)

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-6

**SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2016**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (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	0.00%	\$ 6,782,042	27.54%
January 1, 2011	-	1,100,130	1,100,130	0.00	7,009,082	15.70
January 1, 2014	-	788,652	788,652	0.00	4,582,346	17.21

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-7

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2016**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Redwood County (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.0587%	\$ 4,766,149	\$ 62,178	\$ 4,828,327	\$ 3,640,899	130.91%	68.91%
2015	0.0615	3,187,249	N/A	3,187,249	3,615,230	88.16	78.19

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The measurement date for each year is June 30.
N/A - Not Applicable

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-8

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2016**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2016	\$ 279,393	\$ 279,393	\$ -	\$ 3,725,245	7.50%
2015	284,372	284,372	-	3,791,632	7.50

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The County's year-end is December 31.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-9

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2016**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.078%	\$ 3,130,276	\$ 751,672	416.44%	63.88%
2015	0.078	886,263	714,664	124.01	86.61

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The measurement date for each year is June 30.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-10

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2016**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2016	\$ 126,981	\$ 126,981	\$ -	\$ 783,830	16.20%
2015	122,845	122,845	-	758,302	16.20

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The County's year-end is December 31.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-11

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES CORRECTIONAL PLAN
DECEMBER 31, 2016**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.30%	\$ 1,095,942	\$ 565,304	193.87%	58.16%
2015	0.29	44,834	526,289	8.52	96.95

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The measurement date for each year is June 30.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-12

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES CORRECTIONAL PLAN
DECEMBER 31, 2016**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2016	\$ 49,708	\$ 49,708	\$ -	\$ 568,085	8.75%
2015	50,141	50,141	-	573,044	8.75

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The County's year-end is December 31.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2016

1. General Budget Policies

The County Board adopts estimated revenue and expenditure budgets for the General Fund and special revenue funds, excluding the Springdale Watershed Special Revenue Fund. The expenditure budget is approved at the fund level.

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

2. Budget Basis of Accounting

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

3. Budget Amendments

Revenue budgets were amended in the following fund:

	Original Budget	Increase (Decrease)	Final Budget
General Fund	\$ 8,815,478	\$ 94,393	\$ 8,909,871

Expenditure budgets were amended in the following fund:

	Original Budget	Increase (Decrease)	Final Budget
General Fund	\$ 9,326,448	\$ 117,423	\$ 9,443,871

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Excess of Expenditures Over Budget

The following individual major special revenue funds had expenditures in excess of budget for the year ended December 31, 2016:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
Special Revenue Funds			
Road and Bridge	\$ 9,571,046	\$ 6,775,000	\$ 2,796,046
Solid Waste	904,643	778,071	126,572
Ditch	523,482	153,137	370,345

5. Other Postemployment Benefits Funded Status

Since the County has not irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets to pay the actuarial accrued liability for postemployment benefits is zero.

See Note 4.C. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

6. Other Postemployment Benefits - Significant Actuarial Assumption Changes

2014

Actuarial Assumptions

- The methodology used to calculate retiree-appropriate per capita costs was changed. Previously, the retiree-appropriate rates were assumed to vary by age based on a 3.5 percent annual aging factor. Currently, the annual per capita costs are calculated based on the 2014 expected claims cost plus administrative expenses, actuarially increased using health index factors that vary by a 5-year age band and current enrollment. The methodology change creates a decrease in the liability.
- Mortality assumptions were updated to include future mortality improvement. This change caused an increase in the liability.
- Retirement rates were updated based on the County's historical retirement experience. This change caused a decrease in the liability.

REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA

6. Other Postemployment Benefits - Significant Actuarial Assumption Changes

2014

Actuarial Assumptions (Continued)

- The percentage of active non-elected official employees assumed to elect spousal coverage at retirement was increased from zero to actual spousal coverage election (which is approximately 20.0 percent for male employees and 12.0 percent for female employees). All elected officials who currently have spousal coverage (approximately 33.0 percent) are assumed to elect spousal coverage at retirement. In the prior valuation, all elected officials were assumed to elect spousal coverage at retirement regardless of their current coverage election. This change caused a decrease in the liability.
- Health care trend rates were revised to an initial rate of 7.0 percent for fiscal year ending 2016, decreasing by 0.5 percent annually to an ultimate rate of 4.5 percent. Actual premium increase from 2014 to 2015 was used for the fiscal year ending December 31, 2014, health care trend assumption. Previously, the initial health care trend rate was 8.0 percent, decreasing annually to an ultimate rate of 3.5 percent. This change caused an increase in the liability.

7. Defined Benefit Pension Plans - Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended June 30, 2016:

General Employees Retirement Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

7. Defined Benefit Pension Plans - Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions (Continued)

Public Employees Police and Fire Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.60 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Public Employees Correctional Plan

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.31 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

SUPPLEMENTARY INFORMATION

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GOVERNMENTAL FUND

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT B-1

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 639,410	\$ 639,410	\$ 640,447	\$ 1,037
Intergovernmental	31,819	31,819	30,418	(1,401)
Investment earnings	-	-	2,024	2,024
Total Revenues	\$ 671,229	\$ 671,229	\$ 672,889	\$ 1,660
Expenditures				
Debt service				
Principal	\$ 445,000	\$ 445,000	\$ 445,000	\$ -
Interest	181,193	181,193	181,193	-
Administrative (fiscal) charges	850	850	1,162	(312)
Bond issuance costs	-	-	44,048	(44,048)
Total Expenditures	\$ 627,043	\$ 627,043	\$ 671,403	\$ (44,360)
Excess of Revenues Over (Under) Expenditures	\$ 44,186	\$ 44,186	\$ 1,486	\$ (42,700)
Other Financing Sources (Uses)				
Bonds issued	\$ -	\$ -	\$ 1,170,000	\$ 1,170,000
Premium on bonds sold	-	-	44,566	44,566
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 1,214,566	\$ 1,214,566
Net Change in Fund Balance	\$ 44,186	\$ 44,186	\$ 1,216,052	\$ 1,171,866
Fund Balance - January 1	1,016,032	1,016,032	1,016,032	-
Fund Balance - December 31	\$ 1,060,218	\$ 1,060,218	\$ 2,232,084	\$ 1,171,866

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FIDUCIARY FUNDS

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

AGENCY FUNDS

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

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

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Balance January 1	Additions	Deductions	Balance December 31
<u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 371,136	\$ 371,136	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 371,136	\$ 371,136	\$ -
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 305,585	\$ 26,398,772	\$ 26,386,697	\$ 317,660
<u>Liabilities</u>				
Due to other governments	\$ 305,585	\$ 26,398,772	\$ 26,386,697	\$ 317,660
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 305,585	\$ 26,769,908	\$ 26,757,833	\$ 317,660
<u>Liabilities</u>				
Due to other governments	\$ 305,585	\$ 26,769,908	\$ 26,757,833	\$ 317,660

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OTHER SCHEDULE

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

**Appropriations and Shared Revenue
State**

Highway users tax	\$	6,489,333
County program aid		293,756
PERA rate reimbursement		27,660
Disparity reduction aid		44,288
Police aid		99,226
Enhanced 911		89,006
Market value credit		395,094
Casino credit		95,420
		95,420

Total appropriations and shared revenue **\$ 7,533,783**

Reimbursement for Services

General government	\$	3,886
Public safety		8,306
Highways and streets		102,115
City of Redwood Falls		4,706
Redwood/Renville Regional Solid Waste Authority		165,129
		165,129

Total reimbursement for services **\$ 284,142**

Payments

Local

Payments in lieu of taxes	\$	158,878
Local contributions		20,100
		20,100

Total payments **\$ 178,978**

Grants

State

Minnesota Department of Corrections	\$	61,314
Natural Resources		86,259
Public Safety		84,889
Transportation		652,724
Veterans Affairs		10,000
Board of Water and Soil Resources		67,194
Pollution Control Agency		71,579
Peace Officer Standards and Training Board		3,439
		3,439

Total state **\$ 1,037,398**

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

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

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Grants (Continued)

Federal

Department of	
Justice	\$ 12,214
Transportation	286,214
Health and Human Services	4,001
Homeland Security	<u>22,176</u>
Total federal	<u>\$ 324,605</u>
Total state and federal grants	<u>\$ 1,362,003</u>
Total Intergovernmental Revenue	<u><u>\$ 9,358,906</u></u>

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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

Independent Auditor's Report

Board of County Commissioners
Redwood County
Redwood Falls, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Redwood County, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated July 14, 2017.

Internal Control Over Financial Reporting

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

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. A

significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

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

Compliance and Other Matters

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

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Counties*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the County's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because Redwood County administers no tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that Redwood County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties*, except as described in the Schedule of Findings and Recommendations as item 2014-001. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Redwood County's Response to Finding

Redwood County's response to the legal compliance finding identified in our audit is described in the Corrective Action Plan. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 14, 2017

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2016

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

None.

II. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2014-001

Publishing Claims Paid

Criteria: Minnesota Statutes § 375.12 requires that County Board minutes be published within 30 days of the meeting and include an individualized, itemized list of County Board-approved payments over \$2,000. For claims \$2,000 or less, the total number of claims and total amount shall be stated. The County can publish summaries of the minutes, meeting the requirement of Minn. Stat. § 331A.01. However, the County must still publish claims as required by Minn. Stat. § 375.12.

Condition: Redwood County does not publish an itemized list of County Board-approved payments over \$2,000 with the total number of claims and total amount for payments under \$2,000 as provided by Minn. Stat. § 375.12. The publication provides only the total bills paid by the County Board-approved payments.

Context: Redwood County is concerned that publishing an itemized list of County Board-approved payments over \$2,000 would add substantial cost and serve little public interest. The County has encouraged the Association of Minnesota Counties to pursue a change of the statutes.

Effect: Noncompliance with Minn. Stat. § 375.12.

Cause: The County Board does not wish to incur the additional cost of publication and continues to make the information physically available at the County Government Center.

Recommendation: We recommend the County comply with the above-noted statute and publish an itemized list of County Board-approved payments over \$2,000 with the total number of claims and total amount for payments under \$2,000.

View of Responsible Official: Acknowledged

**REPRESENTATION OF REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2016**

Finding Number: 2014-001

Finding Title: Publishing Claims Paid

Name of Contact Person Responsible for Corrective Action:

Vicki Knobloch, County Administrator

Corrective Action Planned:

Redwood County will continue to review and consider options to bring the publication requirement into compliance with Minnesota Statutes.

Anticipated Completion Date:

2018

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**REPRESENTATION OF REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Finding Number: 2014-001

Finding Title: Publishing Claims Paid

Summary of Condition: Redwood County does not publish an itemized list of County Board-approved payments over \$2,000 with the total number of claims and total amount for payments under \$2,000 as provided by Minn. Stat. § 375.12. The publication provides only the total bills paid by the County Board-approved payments.

Summary of Corrective Action Previously Reported: Redwood County will continue to review and consider options to bring the publication requirement into compliance with the statute.

Status: Not Corrected. Please see corrective action plan for explanation.

Was corrective action taken significantly different than the action previously reported?

Yes _____ No X