

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA

YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - 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 Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

Year Ended December 31, 2004



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

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

ORGANIZATION
2004

Office	Name	Term Expires
Commissioners		
1st District	Brian Kletscher	January 2005
2nd District	John Schueller*	January 2007
3rd District	Joseph Schouvieller	January 2007
4th District	Bruce Tolzmann	January 2007
5th District	Eugene Short**	January 2005
County Officers		
Elected		
Attorney	Michelle Dietrich	January 2007
Auditor-Treasurer	Larry L. Bunting	January 2007
District Court Judge	David W. Peterson	January 2007
Recorder	Joyce Anderson	January 2007
Sheriff	Richard Morris	January 2007
Appointed		
Assessor	Kathy Hillmer	Indefinite
Coordinator	Matthew L. Hylen	Indefinite
Environmental Services Director	Jon Mitchell	Indefinite
Highway Engineer	Ernest Fiala	Indefinite
License Center Director	Deb Tholkes	Indefinite
Maintenance Supervisor	Mark Schell	Indefinite
Medical Examiner	Dr. Dennis P. Nelson	Indefinite
Public Health Nursing	Genie Simon	Indefinite
Veterans Service Officer/ Emergency Management Director	Harold Read	Indefinite
Human Services Director	Patrick Bruflat	Indefinite

*Chair 2005

**Chair 2004

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PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Redwood County

We have audited the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Redwood County as of and for the year ended December 31, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Redwood County as of December 31, 2004, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2005, on our consideration of the Redwood County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: June 20, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

Management's Discussion and Analysis
December 31, 2004
(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, 2004. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's basic financial statements that follow this section.

Financial Highlights

Governmental activities' total net assets are \$63,176,482, of which \$48,099,516 is invested in capital assets and \$3,520,823 is restricted to specific purposes. The \$11,556,143 remaining may be used to meet the County's ongoing obligations to citizens and creditors.

The County's net assets increased by \$3,939,628 for the year ended, December 31, 2004. A large part of the increase is attributable to the County's investing in capital assets net of accumulated depreciation without increasing long-term debt.

The net cost of governmental activities for the current fiscal year was \$4,287,955. The net cost was funded by general revenues totaling \$8,227,583.

Fund balances of the governmental funds increased by \$1,304,250. Most of the increase was due to more intergovernmental revenues in the Road and Bridge Department and a reduction in the expenditures in the Human Services Fund.

For the year ended December 31, 2004, the unreserved fund balance of the General Fund was \$4,353,745, or 85.4 percent of the total General Fund expenditures for the year, a decrease of 3.4 percent.

Overview of the Financial Statements

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

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

The *statement of net assets* presents information on all assets and liabilities of the County using the accrual basis of accounting, with the difference being reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial health of the County is improving or deteriorating. You will need to consider other non-financial 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 *component units* for which the County is legally accountable.

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

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

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

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

The County adopts an annual appropriated budget for its General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, Ditch Special Revenue Fund, Solid Waste Special Revenue Fund, Building Special Revenue Fund, and Public Health Services Special Revenue Fund. A budgetary comparison statement has been provided as required supplementary information for each of these funds to demonstrate compliance with this budget.

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

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

Government-Wide Financial Analysis

Over time, net assets serve as a useful indicator of the County's financial position. The County's assets exceeded liabilities by \$63,176,482 at the close of 2004. The largest portion of the net assets (76.1 percent) reflects its investment in capital assets (example: land, buildings, equipment, and infrastructure such as roads and bridges). However, it should be noted that these assets are not available for future spending. Comparative data with 2003 is presented.

Governmental Activities Redwood County Net Assets (in thousands)

	2003	2004
Assets		
Current and other assets	\$ 16,257	\$ 17,022
Capital assets	45,315	48,100
Total Assets	\$ 61,572	\$ 65,122
Liabilities		
Long-term liabilities	\$ 739	\$ 1,240
Other liabilities	1,596	706
Total Liabilities	\$ 2,335	\$ 1,946
Net Assets		
Invested in capital assets, net of related debt	\$ 45,315	\$ 48,100
Restricted	3,683	3,520
Unrestricted	10,239	11,556
Total Net Assets	\$ 59,237	\$ 63,176

Unrestricted net assets--the part of net assets that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements--are 18.3 percent of the net assets.

Governmental Activities

The County's activities increased net assets by 6.7 percent (\$59,236,854 for 2003 compared to \$63,176,482 for 2004). Key elements in this increase in net assets are as follows for 2004, with comparative data for 2003.

Governmental Activities Redwood County Changes in Net Assets (in thousands)

	<u>2003</u>	<u>2004</u>
Revenues		
Program revenues		
Charges for services	\$ 1,832	\$ 2,066
Operating grants and contributions	5,725	5,250
Capital grants and contributions	2,254	2,342
General revenues		
Property taxes	6,015	6,315
Other	2,090	1,913
Total Revenues	<u>\$ 17,916</u>	<u>\$ 17,886</u>
Expenses		
General government	\$ 2,261	\$ 2,213
Public safety	1,961	2,355
Highways	2,226	2,719
Sanitation	549	488
Human services	4,468	4,254
Health	1,019	1,034
Culture and recreation	195	222
Conservation of natural resources	681	640
Economic development	23	21
Total Expenses	<u>\$ 13,383</u>	<u>\$ 13,946</u>
Increase in Net Assets	\$ 4,533	\$ 3,940
Net Assets - January 1	<u>54,704</u>	<u>59,237</u>
Net Assets - December 31	<u>\$ 59,237</u>	<u>\$ 63,177</u>

Total revenues for the County were \$17,885,956 while total expenses were \$13,946,328. This reflects a \$3,939,628 increase in net assets for the year ended December 31, 2004.

The cost of all governmental activities this year was \$13,946,328. However, as shown on the Statement of Activities (Exhibit 2), the amount that our taxpayers ultimately financed for these activities through County taxes was only \$6,315,039 because some of the cost was paid by those who directly benefited from the programs (\$2,066,193) or by other governments and organizations that subsidized certain programs with grants and contributions (\$7,592,180). The County paid for the remaining “public benefit” portion of governmental activities with general revenues, primarily taxes (some of which could be used only for certain programs) and other revenues, such as grants and contributions not restricted to specific programs, and interest.

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

**Governmental Activities
Redwood County
(in thousands)**

	Total Cost of Services 2004	Net Cost of Services 2004
Human services	\$ 4,254	\$ 1,994
Highways and streets	2,719	(2,250)
Public safety	2,355	1,953
General government	2,213	1,772
Health	1,034	390
All others	1,371	429
Totals	\$ 13,946	\$ 4,288

Financial Analysis of the Government’s Funds

Governmental Funds

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

At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$12,629,224, an increase of \$1,304,250 in comparison with the prior year. Of the combined ending fund balances, \$11,840,128 represents unreserved fund balance which is available for spending at the County’s discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for various reasons either by state law or grant agreements.

The General Fund is the main operating fund for the County. At the end of the current fiscal year, it had an unreserved fund balance of \$4,353,745. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. The General Fund unreserved fund balance represents 85.4 percent of total General Fund expenditures. During 2004, the ending fund balance increased by \$152,327. The County received \$434,609 more in revenue than expected and overspent its budget (mainly in the area of Public Safety) by \$423,367.

The Road and Bridge Special Revenue Fund had an unreserved fund balance of \$1,505,775 at fiscal year-end, representing 26.9 percent of its annual expenditures. The ending fund balance increased \$415,265 during 2004, primarily due to expenditures being under budget.

The Human Services Special Revenue Fund had an unreserved fund balance of \$1,462,370 at fiscal year-end, representing 34.6 percent of its annual expenditures. The ending fund balance increased \$398,041 during 2004, primarily due to cuts in programs.

The Ditch Special Revenue Fund had an unreserved fund balance of \$2,612,868 at fiscal year-end. The ending fund balance increased \$53,349 during 2004, primarily due to the ditches needing less maintenance than was anticipated.

The Solid Waste Special Revenue Fund had an unreserved fund balance of \$610,265 at fiscal year-end, representing 128.0 percent of its annual expenditures. The ending fund balance increased \$130,105 during 2004, primarily due to a transfer in from the Insurance Fund.

The Building Special Revenue Fund had an unreserved fund balance of \$370,770 at fiscal year-end, more than 27 times its annual expenditures. The ending fund balance increased \$65,305 during 2004, primarily due to expenditures being under budget.

The Public Health Service Special Revenue Fund had an unreserved fund balance of \$924,335 at fiscal year-end, representing 89.6 percent of its annual expenditures. The ending balance increased \$89,858 during 2004, primarily due to expenditures being under budget.

General Fund Budgetary Highlights

Over the course of the year, the County Board does not revise the General Fund budget. No budget amendments were made.

The actual charges to appropriations (expenditures) were \$423,367 above the final budget amounts. The most significant positive variance (\$54,182) occurred in the County Attorney's Office, where the costs to operate were less than anticipated, resulting in a 16.5 percent reduction in expected expenditures. Reasons for other significant variances of actual expenditures from final budget include lower than anticipated agricultural inspection costs and overall departmental cuts.

On the other hand, resources available for appropriation were also \$434,609 above the final budgeted amount. Greater than expected collections for certain fees, miscellaneous items, and investment earnings accounted for most of the increase.

Capital Assets and Debt Administration

Capital Assets

The County’s capital assets for its governmental activities at December 31, 2004, totaled \$48,099,516 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased \$3,931,235, or 8.9 percent, from the previous year. The major capital asset events were:

Construction of highways and streets - \$3,633,074

Increase in machinery and equipment - \$372,778

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

	<u>2003</u>	<u>2004</u>
Land	\$ 1,585	\$ 1,586
Infrastructure	39,394	42,043
Buildings	2,372	2,342
Machinery and equipment	1,964	1,917
Construction in progress	-	211
	<u> </u>	<u> </u>
Totals	<u>\$ 45,315</u>	<u>\$ 48,099</u>

Additional information about the County’s capital assets can be found in the Note 2.A.3. to the financial statements.

Long-Term Debt

The County has a net debt at December 31, 2004, of \$372,938. The debt is for financing the acquisition of capital equipment in the Sheriff’s Department. The term is five years with the final payment on December 1, 2009.

Economic Factors and Next Year’s Budgets

The County’s elected and appointed officials considered many factors when setting the 2005 budget, tax rates, and fees that will be charged for the year.

- The unemployment rate for Redwood County at the end of 2004 was 3.9 percent. This compares favorably with the state unemployment rate of 4.3 percent and shows a decrease from the County's 4.5 percent rate of one year ago. This could impact the level of services requested by County residents. The 2004 County population is estimated at 16,245, a decrease of 570 from the 2000 census of 16,815.
- Mortgage interest rates have been extremely low, causing many to refinance their mortgages and/or finance new construction.
- The County's expenditures for 2005 are budgeted to increase 5.3 percent (\$1,146,087) from the 2004 budget. The 2005 anticipated revenues, other than tax levy, state-aid, and special assessments, are budgeted to increase 12.7 percent (\$1,687,414) from the 2004 budget.
- The property tax levy for the County increased 7.54 percent (\$586,807) from 2004 but, due to a state-aid increase (\$79,897), the net tax levy (the amount spread to taxpayers) increased 7.22 percent from 2004.

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, Larry L. Bunting, Redwood County Courthouse, Box 130, Redwood Falls, Minnesota 56283.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004**

Assets

Cash and pooled investments	\$ 5,418,349
Investments	7,255,638
Receivables - net	4,125,349
Inventories	117,790
Prepaid items	95,903
Deferred charges	9,914
Capital assets	
Non-depreciable capital assets	1,797,065
Depreciable capital assets - net of accumulated depreciation	46,302,451
	<hr/>
Total Assets	\$ 65,122,459

Liabilities

Accounts payable and other current liabilities	\$ 608,557
Accrued interest payable	755
Unearned revenue	96,285
Long-term liabilities	
Due within one year	92,983
Due in more than one year	1,147,397
	<hr/>
Total Liabilities	\$ 1,945,977

Net Assets

Invested in capital assets	\$ 48,099,516
Restricted for	
Highways and streets	3,242,143
Public safety	257,858
Other purposes	20,822
Unrestricted	11,556,143
	<hr/>
Total Net Assets	\$ 63,176,482

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Governmental Activities	
Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions		
<u>Functions/Programs</u>					
Governmental activities					
General government	\$ 2,212,276	\$ 414,498	\$ 26,583	\$ -	\$ (1,771,195)
Public safety	2,354,790	149,925	189,556	62,000	(1,953,309)
Highways and streets	2,718,917	123,798	2,564,954	2,279,823	2,249,658
Sanitation	487,841	390,430	100,467	-	3,056
Human services	4,254,383	231,628	2,028,482	-	(1,994,273)
Health	1,034,152	430,707	213,482	-	(389,963)
Culture and recreation	221,997	39,717	10,035	-	(172,245)
Conservation of natural resources	639,973	285,490	116,798	-	(237,685)
Economic development	21,205	-	-	-	(21,205)
Interest	794	-	-	-	(794)
Total governmental activities	<u>\$ 13,946,328</u>	<u>\$ 2,066,193</u>	<u>\$ 5,250,357</u>	<u>\$ 2,341,823</u>	<u>\$ (4,287,955)</u>
General Revenues					
Property taxes				\$ 6,315,039	
Other taxes				10,220	
Payments in lieu of tax				30,207	
Grants and contributions not restricted to specific programs				1,489,312	
Unrestricted investment earnings				187,308	
Miscellaneous				195,497	
Total general revenues				<u>\$ 8,227,583</u>	
Change in net assets				\$ 3,939,628	
Net Assets - Beginning, as restated (Note 1.E.)				<u>59,236,854</u>	
Net Assets - Ending				<u>\$ 63,176,482</u>	

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>
<u>Assets</u>			
Cash and pooled investments	\$ 710,840	\$ 1,844,566	\$ 1,374,322
Petty cash and change funds	3,850	-	-
Undistributed cash in agency funds	140,431	29,286	52,766
Investments	3,942,638	-	-
Taxes receivable			
Prior	32,326	12,017	21,307
Special assessments receivable			
Prior	-	-	-
Noncurrent	-	-	-
Accounts receivable	188	2,133	45,667
Accrued interest receivable	20,382	-	-
Loans receivable	162,096	-	-
Due from other funds	4,498	151	7,296
Due from other governments	23,557	3,067,581	238,709
Inventories	-	117,790	-
Advances to other funds	916	-	-
Prepaid items	95,903	-	-
Total Assets	<u>\$ 5,137,625</u>	<u>\$ 5,073,524</u>	<u>\$ 1,740,067</u>

EXHIBIT 3

Ditch	Solid Waste	Building	Public Health Services	Total Governmental Funds
\$ 111,111	\$ 99,028	\$ 119,816	\$ 906,831	\$ 5,166,514
-	30	-	200	4,080
4,362	10,390	-	10,520	247,755
2,473,000	590,000	250,000	-	7,255,638
-	-	-	4,275	69,925
1,751	14,801	-	-	16,552
353,311	-	-	-	353,311
-	16,297	-	34,776	99,061
24,428	3,723	954	-	49,487
-	-	-	-	162,096
-	4,000	-	1,432	17,377
22,466	-	-	22,604	3,374,917
-	-	-	-	117,790
-	-	-	-	916
-	-	-	-	95,903
\$ 2,990,429	\$ 738,269	\$ 370,770	\$ 980,638	\$ 17,031,322

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	General	Road and Bridge	Human Services
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 41,582	\$ 43,312	\$ 159,262
Salaries payable	96,717	54,602	70,968
Due to other funds	12,599	230	4,373
Due to other governments	207,273	3,843	21,787
Deferred revenue - unavailable	32,326	3,069,096	21,307
Deferred revenue - unearned	953	-	-
Advances from other funds	-	-	-
	\$ 391,450	\$ 3,171,083	\$ 277,697
Fund Balances			
Reserved for			
Inventories	\$ -	\$ 117,790	\$ -
Advances to other funds	916	-	-
Prepaid items	95,903	-	-
Missing heirs	1,552	-	-
Recorder's equipment purchases	15,515	-	-
Enhanced 911	250,635	-	-
Sheriff's contingency	2,442	-	-
Sheriff's forfeited property	4,781	-	-
Attorney's forfeited property	3,755	-	-
Canteen fund	12,065	-	-
Victim assistance	4,866	-	-
Highway allotments	-	278,876	-
Unreserved			
Designated for future expenditures	3,127,554	1,323,631	1,000,000
Designated for compensated absences	249,603	161,819	175,814
Designated for insurance contingencies	596,859	-	-
Designated for post-employment benefits	106,535	20,325	-
Designated for future loans	-	-	-
Undesignated	273,194	-	286,556
	\$ 4,746,175	\$ 1,902,441	\$ 1,462,370
Total Fund Balances	\$ 4,746,175	\$ 1,902,441	\$ 1,462,370
Total Liabilities and Fund Balances	\$ 5,137,625	\$ 5,073,524	\$ 1,740,067

EXHIBIT 3
(Continued)

<u>Ditch</u>	<u>Solid Waste</u>	<u>Building</u>	<u>Public Health Services</u>	<u>Total Governmental Funds</u>
\$ 18,987	\$ 8,979	\$ -	\$ 5,193	\$ 277,315
2,514	8,768	-	36,468	270,037
-	-	-	175	17,377
82	124	-	4,636	237,745
355,062	14,801	-	9,831	3,502,423
-	95,332	-	-	96,285
916	-	-	-	916
\$ 377,561	\$ 128,004	\$ -	\$ 56,303	\$ 4,402,098
\$ -	\$ -	\$ -	\$ -	\$ 117,790
-	-	-	-	916
-	-	-	-	95,903
-	-	-	-	1,552
-	-	-	-	15,515
-	-	-	-	250,635
-	-	-	-	2,442
-	-	-	-	4,781
-	-	-	-	3,755
-	-	-	-	12,065
-	-	-	-	4,866
-	-	-	-	278,876
-	-	-	-	-
1,950,000	596,957	340,000	713,205	9,051,347
6,622	13,308	-	83,736	690,902
-	-	-	-	596,859
-	-	-	-	126,860
525,000	-	-	-	525,000
131,246	-	30,770	127,394	849,160
\$ 2,612,868	\$ 610,265	\$ 370,770	\$ 924,335	\$ 12,629,224
\$ 2,990,429	\$ 738,269	\$ 370,770	\$ 980,638	\$ 17,031,322

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004**

Fund balances - total governmental funds (Exhibit 3)	\$	12,629,224
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		48,099,516
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.		3,502,423
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Notes payable	\$ (375,000)	
Compensated absences	(690,902)	
Deferred debt issuance charges	9,914	
Unamortized discount on notes	2,062	
Accrued interest payable	(755)	
	(1,054,681)	(1,054,681)
Net assets of governmental activities (Exhibit 1)	\$	<u>63,176,482</u>

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>
Revenues			
Taxes	\$ 3,008,106	\$ 1,039,180	\$ 1,912,235
Special assessments	-	-	-
Licenses and permits	32,548	-	-
Intergovernmental	1,128,647	4,830,400	2,478,452
Charges for services	508,201	79,298	187,178
Gifts and contributions	3,414	-	-
Investment earnings	121,459	-	-
Miscellaneous	212,481	52,763	44,450
Total Revenues	\$ 5,014,856	\$ 6,001,641	\$ 4,622,315
Expenditures			
Current			
General government	\$ 2,165,722	\$ -	\$ -
Public safety	2,302,135	-	-
Highways and streets	-	5,236,765	-
Sanitation	-	-	-
Human services	-	-	4,224,274
Health	-	-	-
Culture and recreation	128,049	-	-
Conservation of natural resources	388,383	-	-
Economic development	21,205	-	-
Intergovernmental	81,174	357,880	-
Debt service			
Interest	-	-	-
Bond issuance costs	9,914	-	-
Total Expenditures	\$ 5,096,582	\$ 5,594,645	\$ 4,224,274
Excess of Revenues Over (Under) Expenditures	\$ (81,726)	\$ 406,996	\$ 398,041
Other Financing Sources (Uses)			
Transfers in	\$ -	\$ 22,049	\$ -
Transfers out	(138,885)	-	-
Proceeds from sale of notes	375,000	-	-
Discount on notes issued	(2,062)	-	-
Total Other Financing Sources (Uses)	\$ 234,053	\$ 22,049	\$ -
Net Change in Fund Balances	\$ 152,327	\$ 429,045	\$ 398,041
Fund Balance - January 1	4,593,848	1,487,176	1,064,329
Increase (decrease) in reserved for inventories	-	(13,780)	-
Fund Balance - December 31	\$ 4,746,175	\$ 1,902,441	\$ 1,462,370

EXHIBIT 5

Ditch	Solid Waste	Building	Public Health Services	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 379,789	\$ 6,339,310
237,232	203,689	-	-	440,921
-	-	-	-	32,548
183	100,472	-	307,327	8,845,481
-	-	-	430,469	1,205,146
-	-	-	1,016	4,430
55,295	7,013	3,541	-	187,308
8,040	195,786	61,425	238	575,183
\$ 300,750	\$ 506,960	\$ 64,966	\$ 1,118,839	\$ 17,630,327
\$ -	\$ -	\$ 13,516	\$ -	\$ 2,179,238
-	-	-	-	2,302,135
-	-	-	-	5,236,765
-	476,855	-	-	476,855
-	-	-	-	4,224,274
-	-	-	1,031,962	1,031,962
-	-	-	-	128,049
247,362	-	-	-	635,745
-	-	-	-	21,205
-	-	-	-	439,054
39	-	-	-	39
-	-	-	-	9,914
\$ 247,401	\$ 476,855	\$ 13,516	\$ 1,031,962	\$ 16,685,235
\$ 53,349	\$ 30,105	\$ 51,450	\$ 86,877	\$ 945,092
\$ -	\$ 100,000	\$ 13,855	\$ 2,981	\$ 138,885
-	-	-	-	(138,885)
-	-	-	-	375,000
-	-	-	-	(2,062)
\$ -	\$ 100,000	\$ 13,855	\$ 2,981	\$ 372,938
\$ 53,349	\$ 130,105	\$ 65,305	\$ 89,858	\$ 1,318,030
2,559,519	480,160	305,465	834,477	11,324,974
-	-	-	-	(13,780)
\$ 2,612,868	\$ 610,265	\$ 370,770	\$ 924,335	\$ 12,629,224

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 1,318,030

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 revenues between the fund statements and the statement of activities is the increase (decrease) in revenues deferred as unavailable.

Deferred revenue - December 31	\$ 3,502,423	
Deferred revenue - January 1	(3,246,794)	255,629

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.

Expenditures for general capital assets and infrastructure	\$ 4,292,522	
Net book value of assets disposed of	(28,529)	
Current year depreciation	(1,479,125)	2,784,868

Debt issuance proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. The net proceeds for debt issuance are:

Notes issued	\$ (375,000)	
Discount on notes issued	2,062	
Issuance costs	9,914	(363,024)

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	\$ (755)	
Change in compensated absences	(41,340)	
Change in inventories	(13,780)	(55,875)

Change in net assets of governmental activities (Exhibit 2) \$ 3,939,628

FIDUCIARY FUNDS

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUND
DECEMBER 31, 2004**

<u>Assets</u>	
Cash and pooled investments	<u>\$ 503,907</u>
 <u>Liabilities</u>	
Accounts payable	\$ 287,150
Due to other governments	<u>216,757</u>
Total Liabilities	<u>\$ 503,907</u>

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about Redwood County. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

double-counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported in a single column.

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

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

2. Fund Financial Statements

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

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

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

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

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

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

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

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

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

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

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor-Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2004, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2004 were \$59,010.

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

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

- (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.

2. Receivables and Payables

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

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

All receivables are shown net of an allowance for uncollectibles.

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 on May 15 and the second half payment due October 15.

Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Inventories and Prepaid Items

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

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

4. Restricted Assets

Certain funds of the County are classified as restricted assets on the statement of net assets because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

5. 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 government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

5. Capital Assets (Continued)

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

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

6. Compensated Absences

The liability for compensated absences reported in financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide and fiduciary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

7. Deferred Revenue

All County funds and the government-wide financial statements defer revenue for resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

8. Long-Term Obligations

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

8. Long-Term Obligations (Continued)

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.

9. Fund Equity

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

10. Use of Estimates

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

E. Prior Period Adjustment

Net assets at January 1, 2004, have been restated. The restatement is as follows:

Net assets, as previously reported	\$ 58,826,096
Add right-of-way to capital assets	1,146,367
Correct an error in the determination of highway allotment revenue, not earned at December 31, 2003	<u>(735,609)</u>
Net Assets, as Restated	<u>\$ 59,236,854</u>

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

The County's total cash and investments are reported as follows:

Cash and pooled investments	\$ 5,418,349
Investments	7,255,638
Fiduciary funds	
Agency funds	<u>503,907</u>
Total Cash and Investments	<u>\$ 13,177,894</u>

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the County Auditor-Treasurer. At December 31, 2004, the carrying amount of the County's deposits totaled \$8,139,124. The bank balance deposit amount was \$8,589,056. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral.

Following is a summary of the deposits covered by insurance or collateral at December 31, 2004.

	<u>Bank Balance</u>
Covered Deposits	
Insured, or collateralized with securities held by the County or its agent in the County's name	\$ 2,256,720
Collateralized with securities held by the pledging financial institution's agent in the County's name	<u>6,332,336</u>
Total covered deposits	\$ 8,589,056
Uncollateralized	<u>-</u>
Total	<u>\$ 8,589,056</u>

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Three levels of custodial credit risk for securities are defined by generally accepted accounting principles:

- (1) securities that are insured or registered, or for which the securities are held by the County or its agent in the County's name;
- (2) securities that are uninsured and unregistered and are held by the counterparty's trust department or agent in the County's name; and
- (3) securities that are uninsured and unregistered and are held by the counterparty, or by its trust department or agent, but not in the County's name.

Following is a summary of the fair values of the County's investments, categorized into the aforementioned levels of risk, at December 31, 2004:

	Category			Fair Value
	1	2	3	
Government National Mortgage Association Repurchase agreement	\$ 7,075	\$ -	\$ -	\$ 7,075
	-	-	422,793	422,793
Total Investments	\$ 7,075	\$ -	\$ 422,793	\$ 429,868
Add				
Petty cash and change funds				4,080
Checking				(80,079)
Money market savings				970,640
Certificates of deposit				7,248,563
Investment in mutual funds				2,076,550
MAGIC Fund				2,528,272
Total Cash and Investments				\$ 13,177,894

Due to higher cash flows at certain times during the year, the County's investment in overnight repurchase agreements for which the underlying securities were held by Wells Fargo Bank for the Bremer Bank increased significantly. As a result, the amounts that were in Category 3 at those times were higher than at year-end.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2004, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 69,925	\$ -
Special assessments	369,863	353,311
Accounts	99,061	-
Interest	49,487	-
Loans	162,096	144,827
Due from other governments	3,374,917	-
Total Governmental Activities	\$ 4,125,349	\$ 498,138

In 2001, the County agreed to act as loan and project sponsor for a project loan agreement made under the Clean Water Partnership Law with the State of Minnesota through its Pollution Control Agency. The loans are to be interest-free with repayment terms from five to 20 years and are used for a variety of groundwater improvement projects. These loans receivable are offset by a liability of due to other governments because the County is required to repay all funds to the Minnesota Pollution Control Agency.

Project loan agreements	
Beginning balance	\$ 84,412
Loans made in 2004	110,798
Loan repayment	(33,114)
Ending Balance	\$ 162,096

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 438,370	\$ -	\$ 2,222	\$ 436,148
Right-of-way	1,146,367	3,020	-	1,149,387
Construction in progress	-	211,530	-	211,530
 Total capital assets not Depreciated	 \$ 1,584,737	 \$ 214,550	 \$ 2,222	 \$ 1,797,065
Capital assets depreciated				
Buildings	\$ 5,186,467	\$ 72,120	\$ 5,926	\$ 5,252,661
Machinery and equipment	5,229,040	372,778	136,607	5,465,211
Infrastructure	48,846,739	3,633,074	-	52,479,813
 Total capital assets depreciated	 \$ 59,262,246	 \$ 4,077,972	 \$ 142,533	 \$ 63,197,685
Less: accumulated depreciation for				
Buildings	\$ 2,814,582	\$ 99,567	\$ 3,762	\$ 2,910,387
Machinery and equipment	3,265,509	395,419	112,464	3,548,464
Infrastructure	9,452,244	984,139	-	10,436,383
 Total accumulated depreciation	 \$ 15,532,335	 \$ 1,479,125	 \$ 116,226	 \$ 16,895,234
 Total capital assets depreciated, net	 \$ 43,729,911	 \$ 2,598,847	 \$ 26,307	 \$ 46,302,451
 Governmental Activities Capital Assets, Net	 \$ 45,314,648	 \$ 2,813,397	 \$ 28,529	 \$ 48,099,516

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

General government	\$ 97,789
Public safety	57,258
Highways and streets, including depreciation of infrastructure assets	1,268,490
Sanitation	26,845
Human services	12,262
Health	6,183
Culture and recreation	7,937
Conservation of natural resources	2,361
 Total Depreciation Expense – Governmental Activities	 \$ 1,479,125

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2004, is as follows:

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Road and Bridge	\$ 230
	Human Services	4,223
	Public Health Services	45
Total Due to General Fund		<u>\$ 4,498</u>
Road and Bridge	General	\$ 21
	Public Health Services	130
Total Due to Road and Bridge Fund		<u>\$ 151</u>
Human Services	General	\$ 7,296
Solid Waste	General	\$ 4,000
Public Health Services	General	\$ 1,282
	Human Services	150
Total Due to Public Health Services Fund		<u>\$ 1,432</u>
Total Due To/From Other Funds		<u>\$ 17,377</u>

2. Advances From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Ditch	<u>\$ 916</u>

On December 1, 1987, the County General Fund advanced Joint Ditch 36 Lateral 1A, Lateral U, funds to make needed repairs. The advance is being paid off over 20 years with special assessments on the benefited properties.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers (Continued)

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2004, consisted of the following:

Transfer to Road and Bridge Fund from General Fund	\$ 22,049	Provide funding
Transfer to Solid Waste Fund from General Fund	100,000	Provide funding
Transfer to Building Fund from General Fund	13,855	Provide funding
Transfer to Public Health Services Fund From General Fund	2,981	Provide funding
Total Interfund Transfers	\$ 138,885	

C. Liabilities

1. Payables

Payables at December 31, 2004, were as follows:

	Governmental Activities
Accounts	\$ 277,315
Salaries	270,037
Due to other governments	61,205
Total Payables	\$ 608,557

2. Construction Commitments

The County has no active construction projects as of December 31, 2004.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Other Post-Employment Benefits

Retired Officials' and Employees' Health Insurance Benefits

The County pays the health insurance for qualified retired employees and elected officials. Employees who retire between age 55 and 65 with 25 years of public service, and with at least ten years of service with Redwood County, qualify for health insurance benefits. Elected officials qualify if they serve a minimum of two years as an elected Redwood County official. The elected official or his or her surviving spouse and dependents will receive one year of paid or partially paid medical insurance for every two years of service to Redwood County. Additional years not a multiple of two are prorated. A maximum of six years of paid insurance is available to elected officials. For retired employees, the County rates are based on the County's group health policy rates in effect at the time of retirement and are a fixed amount until discontinued at age 65 for retired employees and after a maximum of six years for elected officials. As of year-end December 31, 2004, the County has 14 eligible participants, four elected officials, and ten employees. The County finances the plan on a pay-as-you-go basis. During 2004, the County expended \$48,151 for these benefits.

4. Long-Term Debt

Loans Payable

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

<u>Types of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rates (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2004</u>
Clean water loans	2014	\$ 14,514	2.00	\$ 200,007	\$ 176,540

The clean water loans do not have a fixed amortization schedule.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities

4. Long-Term Debt (Continued)

Notes Payable

In 2004, Redwood County issued a capital note for \$375,000 to finance the requisition of capital equipment in the Sheriff's Department. Payments on the notes payable will be made in the General Fund.

<u>Types of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2004</u>
2004 General Obligation Capital Notes, Series 2004A	2009	\$65,000- \$80,000	2.05 to 2.85	<u>\$ 375,000</u>	\$ 375,000
Less: unamortized discount					<u>(2,062)</u>
Total General Obligation Notes, Net					<u>\$ 372,938</u>

5. Debt Service Requirements

Debt service requirements at December 31, 2004, were as follows:

<u>Year Ending December 31</u>	<u>General Obligation Capital Notes</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 65,000	\$ 9,065
2006	75,000	7,732
2007	75,000	6,120
2008	80,000	4,320
2009	<u>80,000</u>	<u>2,280</u>
Total	<u>\$ 375,000</u>	<u>\$ 29,517</u>

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Notes payable					
General obligation notes	\$ -	\$ 375,000	\$ -	\$ 375,000	\$ 65,000
Less: deferred amounts for issuance discounts	-	(2,062)	-	(2,062)	-
Total bonds payable	\$ -	\$ 372,938	\$ -	\$ 372,938	\$ 65,000
Clean water loans payable	89,209	110,798	23,467	176,540	11,954
Compensated absences	649,562	41,340	-	690,902	16,029
Governmental Activity Long-Term Liabilities	<u>\$ 738,771</u>	<u>\$ 525,076</u>	<u>\$ 23,467</u>	<u>\$ 1,240,380</u>	<u>\$ 92,983</u>

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

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

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

For all PERA members whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans (Continued)

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 6.20 percent of their annual covered salary. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

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

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53
Public Employees Police and Fire Fund	9.30
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2004, 2003, and 2002, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund, were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2004	\$ 244,160	\$ 46,480	\$ 30,517
2003	254,476	43,802	29,004
2002	247,188	41,209	27,846

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Employee Retirement Systems and Pension Plans (Continued)

B. Defined Contribution Plan

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

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

No vesting period is required to receive benefits in the Defined Contribution Plan. At the time of retirement or termination, the market value of the member's account is distributed to the member or another qualified plan.

The County's contributions for the years ending December 31, 2004, 2003, and 2002, were \$2,524, \$2,513, and \$1,275, respectively, equal to the contractually required contributions for each year as set by state statute.

4. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Risk Management (Continued)

in the Workers' Compensation Reinsurance Association with coverage at \$720,000 per claim in 2004 and \$760,000 in 2005. 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. The 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.

5. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

B. Joint Ventures

Red Rock Rural Water System

The Red Rock Rural Water System was established pursuant to Minn. Stat. ch. 116A through a joint powers agreement pursuant to Minn. Stat. § 471.59 and under the jurisdiction of the Fifth Judicial District. Brown, Cottonwood, Lyon, Murray, Redwood, and Watonwan Counties have agreed to guarantee their share of debt arising within each respective county. The Red Rock Rural Water System provides water for participating rural water users and cities within the water district.

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Red Rock Rural Water System (Continued)

Each county is responsible for levying and collecting the special assessments from the benefited properties within the county. A bond issue and notes payable are shown as long-term debt on the financial statements of the Red Rock Rural Water System. Outstanding bonds at December 31, 2003 (the latest information available), were \$7,115,000, and notes payable were \$55,437. Retained earnings were \$1,164,138.

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

Minnesota River Basin

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

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

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

During 2004, the County contributed \$10,735 to the Joint Powers Board. Complete financial statements for the Minnesota River Basin Joint Powers Board can be obtained from its administrative office at Administration Building No. 14, 600 East 4th Street, Chaska, Minnesota 55318.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Southwestern Minnesota Adult Mental Health Consortium Board

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

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

The following is a summary of the Consortium Board's annual financial report for the year ended December 31, 2003 (the latest information available):

Total assets	\$ 220,978
Total liabilities	5,230
Total equity	215,748
Total revenues	889,414
Total expenditures	856,904
Net increase to fund balance	32,510

The Consortium Board reported no long-term obligations at December 31, 2003.

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

C. Jointly-Governed Organizations

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Family Service Collaborative

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

Area II Minnesota River Basin Project

The Area II Minnesota River Basin Project provides programs for flood reduction measures to the area between the Cities of Ortonville and Mankato. During the year, the County made no contributions to the Project.

Redwood-Cottonwood Rivers Control Area

The Redwood-Cottonwood Rivers Control Area (RCRCA) promotes orderly water quality improvement and management within the boundaries of the watersheds of the Redwood and Cottonwood Rivers for the participating counties. The County made no contributions to the RCRCA.

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REQUIRED SUPPLEMENTARY INFORMATION

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 3,688,643	\$ 3,688,643	\$ 3,008,106	\$ (680,537)
Licenses and permits	21,700	21,700	32,548	10,848
Intergovernmental	260,164	260,164	1,128,647	868,483
Charges for services	494,990	494,990	508,201	13,211
Gifts and contributions	2,500	2,500	3,414	914
Investment earnings	80,000	80,000	121,459	41,459
Miscellaneous	32,250	32,250	212,481	180,231
Total Revenues	\$ 4,580,247	\$ 4,580,247	\$ 5,014,856	\$ 434,609
Expenditures				
Current				
General government				
Commissioners	\$ 207,432	\$ 207,432	\$ 212,604	\$ (5,172)
Courts	-	-	785	(785)
Law library	-	-	22,568	(22,568)
County administration	138,975	138,975	160,729	(21,754)
County auditor-treasurer	272,600	272,600	246,911	25,689
License center	112,989	112,989	111,125	1,864
County assessor	208,994	208,994	205,318	3,676
Elections	9,279	9,279	15,289	(6,010)
Computer	49,150	49,150	47,307	1,843
Personnel coordinator	111,860	111,860	119,742	(7,882)
Attorney	328,418	328,418	274,236	54,182
Recorder	209,632	209,632	199,846	9,786
Buildings and plant	249,849	249,849	254,999	(5,150)
Veterans service officer	183,092	183,092	186,445	(3,353)
Other general government	-	-	107,818	(107,818)
Total general government	\$ 2,082,270	\$ 2,082,270	\$ 2,165,722	\$ (83,452)
Public safety				
Sheriff	\$ 1,765,035	\$ 1,765,035	\$ 1,917,975	\$ (152,940)
Coroner	10,000	10,000	3,474	6,526
E-911 system	22,000	22,000	15,924	6,076
Probation and parole	269,311	269,311	282,007	(12,696)
Civil defense	-	-	82,755	(82,755)
Total public safety	\$ 2,066,346	\$ 2,066,346	\$ 2,302,135	\$ (235,789)
Culture and recreation				
Museum	\$ 3,200	\$ 3,200	\$ 1,908	\$ 1,292
Parks	89,024	89,024	93,581	(4,557)
Other	22,700	22,700	32,560	(9,860)
Total culture and recreation	\$ 114,924	\$ 114,924	\$ 128,049	\$ (13,125)

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

*Schedule 1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Conservation of natural resources				
Extension	\$ 63,850	\$ 63,850	\$ 62,817	\$ 1,033
Agricultural inspection	107,065	107,065	77,952	29,113
Water quality loan program	-	-	110,138	(110,138)
Other	135,086	135,086	137,476	(2,390)
Total conservation of natural resources	\$ 306,001	\$ 306,001	\$ 388,383	\$ (82,382)
Economic development				
Other	\$ 22,500	\$ 22,500	\$ 21,205	\$ 1,295
Intergovernmental				
Library	\$ 81,174	\$ 81,174	\$ 81,174	\$ -
Debt service				
Bond issuance costs	\$ -	\$ -	\$ 9,914	\$ (9,914)
Total Expenditures	\$ 4,673,215	\$ 4,673,215	\$ 5,096,582	\$ (423,367)
Excess of Revenues Over (Under)				
Expenditures	\$ (92,968)	\$ (92,968)	\$ (81,726)	\$ 11,242
Other Financing Sources (Uses)				
Transfers out	\$ -	\$ -	\$ (138,885)	\$ (138,885)
Proceeds from sale of notes	-	-	375,000	375,000
Discount on notes issued	-	-	(2,062)	(2,062)
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 234,053	\$ 234,053
Net Change in Fund Balance	\$ (92,968)	\$ (92,968)	\$ 152,327	\$ 245,295
Fund Balance - January 1	4,593,848	4,593,848	4,593,848	-
Fund Balance - December 31	\$ 4,500,880	\$ 4,500,880	\$ 4,746,175	\$ 245,295

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,280,000	\$ 1,280,000	\$ 1,039,180	\$ (240,820)
Intergovernmental	6,908,000	6,908,000	4,830,400	(2,077,600)
Charges for services	90,000	90,000	79,298	(10,702)
Miscellaneous	35,000	35,000	52,763	17,763
Total Revenues	\$ 8,313,000	\$ 8,313,000	\$ 6,001,641	\$ (2,311,359)
Expenditures				
Current				
Highways and streets				
Administration	\$ 331,321	\$ 331,321	\$ 285,735	\$ 45,586
Maintenance	1,868,645	1,868,645	1,742,537	126,108
Construction	5,900,875	5,900,875	2,575,886	3,324,989
Equipment and maintenance shops	732,159	732,159	632,607	99,552
Total highways and streets	\$ 8,833,000	\$ 8,833,000	\$ 5,236,765	\$ 3,596,235
Intergovernmental				
Highways and streets	-	-	357,880	(357,880)
Total Expenditures	\$ 8,833,000	\$ 8,833,000	\$ 5,594,645	\$ 3,238,355
Excess of Revenues Over (Under) Expenditures	\$ (520,000)	\$ (520,000)	\$ 406,996	\$ 926,996
Other Financing Sources (Uses)				
Transfers in	20,000	20,000	22,049	2,049
Net Change in Fund Balance	\$ (500,000)	\$ (500,000)	\$ 429,045	\$ 929,045
Fund Balance - January 1	1,487,176	1,487,176	1,487,176	-
Increase (decrease) in reserved for inventories	-	-	(13,780)	(13,780)
Fund Balance - December 31	\$ 987,176	\$ 987,176	\$ 1,902,441	\$ 915,265

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,352,059	\$ 2,352,059	\$ 1,912,235	\$ (439,824)
Intergovernmental	2,150,106	2,150,106	2,478,452	328,346
Charges for services	215,616	215,616	187,178	(28,438)
Miscellaneous	51,893	51,893	44,450	(7,443)
Total Revenues	\$ 4,769,674	\$ 4,769,674	\$ 4,622,315	\$ (147,359)
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,138,871	\$ 1,138,871	\$ 1,133,058	\$ 5,813
Social services	3,630,803	3,620,803	3,091,216	529,587
Total Expenditures	\$ 4,769,674	\$ 4,759,674	\$ 4,224,274	\$ 535,400
Excess of Revenues Over (Under) Expenditures	\$ -	\$ 10,000	\$ 398,041	\$ 388,041
Fund Balance - January 1	1,064,329	1,064,329	1,064,329	-
Fund Balance - December 31	\$ 1,064,329	\$ 1,074,329	\$ 1,462,370	\$ 388,041

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
DITCH FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ 176,000	\$ 176,000	\$ 237,232	\$ 61,232
Intergovernmental	-	-	183	183
Investment earnings	-	-	55,295	55,295
Miscellaneous	-	-	8,040	8,040
Total Revenues	\$ 176,000	\$ 176,000	\$ 300,750	\$ 124,750
Expenditures				
Current				
Conservation of natural resources				
Other	\$ 325,000	\$ 325,000	\$ 247,362	\$ 77,638
Debt service				
Interest	-	-	39	(39)
Total Expenditures	\$ 325,000	\$ 325,000	\$ 247,401	\$ 77,599
Excess of Revenues Over (Under) Expenditures	\$ (149,000)	\$ (149,000)	\$ 53,349	\$ 202,349
Fund Balance - January 1	2,559,519	2,559,519	2,559,519	-
Fund Balance - December 31	\$ 2,410,519	\$ 2,410,519	\$ 2,612,868	\$ 202,349

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ 198,000	\$ 198,000	\$ 203,689	\$ 5,689
Intergovernmental	49,500	49,500	100,472	50,972
Investment earnings	-	-	7,013	7,013
Miscellaneous	41,553	41,553	195,786	154,233
Total Revenues	\$ 289,053	\$ 289,053	\$ 506,960	\$ 217,907
Expenditures				
Current				
Sanitation				
Solid waste	\$ 234,637	\$ 234,637	\$ 255,564	\$ (20,927)
Recycling	78,380	78,380	166,548	(88,168)
Hazardous waste	-	-	7,375	(7,375)
Waste to energy	-	-	47,368	(47,368)
Total Expenditures	\$ 313,017	\$ 313,017	\$ 476,855	\$ (163,838)
Excess of Revenues Over (Under) Expenditures	\$ (23,964)	\$ (23,964)	\$ 30,105	\$ 54,069
Other Financing Sources (Uses)				
Transfers in	-	-	100,000	100,000
Net Change in Fund Balance	\$ (23,964)	\$ (23,964)	\$ 130,105	\$ 154,069
Fund Balance - January 1	480,160	480,160	480,160	-
Fund Balance - December 31	\$ 456,196	\$ 456,196	\$ 610,265	\$ 154,069

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

Schedule 6

**BUDGETARY COMPARISON SCHEDULE
BUILDING FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Investment earnings	\$ -	\$ -	\$ 3,541	\$ 3,541
Miscellaneous	75,000	75,000	61,425	(13,575)
Total Revenues	\$ 75,000	\$ 75,000	\$ 64,966	\$ (10,034)
Expenditures				
Current				
General government				
Buildings and plant	60,000	60,000	13,516	46,484
Excess of Revenues Over (Under) Expenditures	\$ 15,000	\$ 15,000	\$ 51,450	\$ 36,450
Other Financing Sources (Uses)				
Transfers in	-	-	13,855	13,855
Net Change in Fund Balance	\$ 15,000	\$ 15,000	\$ 65,305	\$ 50,305
Fund Balance - January 1	305,465	305,465	305,465	-
Fund Balance - December 31	\$ 320,465	\$ 320,465	\$ 370,770	\$ 50,305

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

Schedule 7

**BUDGETARY COMPARISON SCHEDULE
PUBLIC HEALTH SERVICES FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 469,927	\$ 469,927	\$ 379,789	\$ (90,138)
Licenses and permits	65,491	65,491	-	(65,491)
Intergovernmental	188,598	188,598	307,327	118,729
Charges for services	446,045	446,045	430,469	(15,576)
Gifts and contributions	1,000	1,000	1,016	16
Miscellaneous	-	-	238	238
Total Revenues	\$ 1,171,061	\$ 1,171,061	\$ 1,118,839	\$ (52,222)
Expenditures				
Current				
Health				
Nursing service	1,209,599	1,209,599	1,031,962	177,637
Excess of Revenues Over (Under) Expenditures	\$ (38,538)	\$ (38,538)	\$ 86,877	\$ 125,415
Other Financing Sources (Uses)				
Transfers in	6,000	6,000	2,981	(3,019)
Net Change in Fund Balance	\$ (32,538)	\$ (32,538)	\$ 89,858	\$ 122,396
Fund Balance - January 1	834,477	834,477	834,477	-
Fund Balance - December 31	\$ 801,939	\$ 801,939	\$ 924,335	\$ 122,396

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

1. General Budget Policies

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

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

2. Budget Basis of Accounting

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

3. Budget Amendments

Expenditure budgets were not amended during the year.

4. Excess of Expenditures Over Budget

<u>Fund</u>	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 5,096,582	\$ 4,673,215	\$ 423,367
Solid Waste Fund	476,855	313,017	163,838

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SUPPLEMENTARY INFORMATION

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

Statement 1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Balance January 1	Additions	Deductions	Balance December 31
<u>FAMILY SERVICES COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 346,624	\$ 466,636	\$ 578,519	\$ 234,741
<u>Liabilities</u>				
Accounts payable	\$ 346,624	\$ 466,636	\$ 578,519	\$ 234,741
 <u>SOCIAL SERVICES SPECIAL PROJECTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,372	\$ 7,246	\$ 6,316	\$ 2,302
<u>Liabilities</u>				
Accounts payable	\$ 1,372	\$ 7,246	\$ 6,316	\$ 2,302
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 50,733	\$ 1,911,380	\$ 1,912,006	\$ 50,107
<u>Liabilities</u>				
Accounts payable	\$ 50,733	\$ 345,955	\$ 346,581	\$ 50,107
Due to other governments	-	1,565,425	1,565,425	-
Total Liabilities	\$ 50,733	\$ 1,911,380	\$ 1,912,006	\$ 50,107

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

Statement 1
(Continued)

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 139,660	\$ 14,247,823	\$ 14,170,726	\$ 216,757
<u>Liabilities</u>				
Due to other governments	\$ 139,660	\$ 14,247,823	\$ 14,170,726	\$ 216,757
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 538,389	\$ 16,633,085	\$ 16,667,567	\$ 503,907
<u>Liabilities</u>				
Accounts payable	\$ 398,729	\$ 819,837	\$ 931,416	\$ 287,150
Due to other governments	139,660	15,813,248	15,736,151	216,757
Total Liabilities	\$ 538,389	\$ 16,633,085	\$ 16,667,567	\$ 503,907

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

Schedule 8

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Shared Revenue

State

Highway users tax	\$	4,582,989
County program aid		729,114
PERA rate reimbursement		27,659
Disparity reduction aid		45,162
Police aid		43,802
Enhanced 911		44,706
Market value credit		685,027
		685,027

Total Shared Revenue **\$ 6,158,459**

Reimbursement for Services

Minnesota Department of Human Services	\$	902,503
		902,503

Payments

Local

Payments in lieu of taxes	\$	30,207
Waste to energy local contributions		33,368
Local		2,350
		2,350

Total Payments **\$ 65,925**

Grants

State

Minnesota Department/Board of		
Corrections	\$	78,848
Health		91,341
Human Services		772,184
Natural Resources		10,035
Veterans Affairs		2,800
Office of Environmental Assistance		73,099
Pollution Control Agency		110,798
Peace Officers Board		3,223
		3,223

Total State **\$ 1,142,328**

Federal

Department of		
Agriculture	\$	59,621
Health and Human Services		435,668
Homeland Security		80,977
		80,977

Total Federal **\$ 576,266**

Total State and Federal Grants **\$ 1,718,594**

Total Intergovernmental Revenue **\$ 8,845,481**

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

Schedule 9

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2004

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of Redwood County.
- B. Reportable conditions in internal control were disclosed by the audit of financial statements of Redwood County and are reported in the "Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." None were material weaknesses.
- C. No instances of noncompliance material to the financial statements of Redwood County were disclosed during the audit.
- D. No reportable conditions relating to the audit of the major federal award program are reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award program for Redwood County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major program is:
 - Social Services Block Grant Title XX
 - CFDA #93.667
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Redwood County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

99-1 Internal Accounting Controls

Due to the limited number of office personnel within the various County departments, proper segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. Although this is not unusual in small departmental situations, management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

We recommend that County management be aware of the lack of segregation of the accounting functions and, if possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff.

Client's Response:

The County is aware of this and segregates duties whenever possible.

99-2 Fiscal Agent for Collaborative

Currently, an employee in the County Human Services Department acts as the fiscal agent and maintains the checkbook for the Redwood County Family Services Collaborative. Permitting a County employee to control large amounts of money outside the internal controls created by statutes applicable to counties is undesirable from an accounting perspective.

We recommend that this situation be reviewed by the County Attorney regarding the proper delegation of County authority. Further, we recommend that the County, except in those areas permitted by law, allow only the County Auditor-Treasurer to control County funds or other funds in the County's possession.

Client's Response:

Audits of Redwood County Collaborative through 2003 have been performed by the State Auditor's Office. As per State Auditor, Patricia Anderson, an "unqualified opinion" has been issued stating that "the financial statements of the Collaborative conform with applicable accounting standards." It is the intent of the Collaborative to continue to engage the State Auditor's Office for audit performance separate from the Human Services audit. The Fiscal Supervisor will look into adding the Collaborative fund to the County general ledger.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

02-2 Collateral Assignments for the Collaborative

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

The County is not complying with the collateral requirement unless it obtains an enforceable assignment of pledged collateral. To obtain an enforceable assignment under federal law (12 U.S.C. § 1823(e)), the County must obtain a written assignment of collateral which is approved by the depository bank's board of directors or loan committee and is a continuous official record of the bank.

We recommend that the County obtain the documentation indicating it has perfected a security interest in pledged collateral.

Client's Response:

Client's agency receives monthly confirmation reports of pledged collateral on Collaborative accounts. Additionally, copies of safekeeping receipts are requested and obtained for verifications. Client did not understand that further verification in the form of depository bank's official record of collateral assignment was also necessary. The Fiscal Supervisor will annually obtain the documentation indicating it has perfected a security interest in pledged collateral from the designated depository.

ITEMS ARISING THIS YEAR

04-1

Debt Service Levy

In 2004, the County issued \$375,000 General Obligation Capital Notes. Revenues and expenditures related to this debt issue are accounted for in the General Fund.

During 2004, the County set the 2005 debt levy at less than an amount to satisfy the 105 percent requirement of Minn. Stat. § 475.61, subd. 1. The County levied \$70,045 for these bonds for 2005 when it should have levied \$77,768, less unused discount and accrued interest on the issue--a shortage of \$3,058.

Minn. Stat. § 475.61, subd. 1, requires counties issuing general obligation debt to levy an ad valorem tax on all taxable property in the county for each year of the term of the obligations. The tax levies for all years, together with other revenues pledged for the payment of the obligations, must produce at least five percent in excess of the amount needed to meet, when due, the principal and interest payments on the obligations.

We recommend that an additional levy be made in the future to make up the shortage caused by the 2005 insufficient tax levy.

Client's Response:

Will be addressed in the 2006 levy.

04-2 Quotes

The County Veterans Service Officer expended federal grant funds for a pickup without receiving competitive quotes. The grant agreement start date was August 1, 2004, and all purchases should occur after that date. The Veterans Service Officer received two quotes from branches of the same dealership. In addition, a quote from a competing firm was received, but that quote was dated April 6, 2004, and stated that the estimate was good only for 90 days. The start date of the grant was later than the expiration date of the quote, so the County effectively had quotes only from the same firm (Kohls-Weelborg).

Minn. Stat. § 471.345, subd. 4, states that contracts estimated to exceed \$10,000 but not to exceed \$50,000 may be made by obtaining two or more quotations when possible. There does not appear to be any reason the County could not obtain two quotes.

We recommend that the County comply with Minn. Stat. § 471.345 by obtaining two or more quotes when required by statute.

Client's Response:

We will comply.

PREVIOUSLY REPORTED ITEMS RESOLVED

Prompt Payment Language in Contracts (03-1)

During our contract compliance testing, we noted two contracts that did not “. . . require the prime contractor to pay any subcontractor within ten days of the prime contractor's receipt of payment from the municipality for undisputed services provided by the subcontractor” as required by Minn. Stat. § 471.425, subd. 4a.

Resolution

The County complies with Minn. Stat. § 471.425, subd.4a, by inserting language in the contracts to ensure compliance.

Final Contract Payment (03-2)

Final payment was made on two contracts, Everstrong Construction and G&S Cabinets and Construction, before Form IC-134, which certifies employee withholdings, was received from the contractors. These contracts involved the employment of individuals for wages by the contractors.

Resolution

The County complies with Minn. Stat. § 290.97.

Per Diem Payments (03-3)

Three members of the County Board received a per diem for services on the Board of Equalization in violation of Minn. Stat. § 375.055, subd. 5.

Resolution

The County Board immediately corrected this oversight and repaid the amounts received.

Contracting - Advertising for Bids (03-4)

The County did not publish notice three weeks prior to the bid opening date for the Human Services project as required by law.

Resolution

The County complied with all statutory requirements relating to publishing notice three weeks prior to bid openings.

No Written Contract (03-5)

The County contracted with G&S Cabinets and Construction for a storage building in the amount of \$84,383 without obtaining an original written contract. Minn. Stat. § 375.21, subd. 1, requires that contracts be duly executed in writing.

Resolution

The County follows the requirements of Minn. Stat. § 375.21, subd. 1.

No Performance and Payment Bonds (03-6)

The County let two contracts during the year without receiving a performance and payment bond from the following contractors: G&S Cabinets and Construction and Everstrong Construction. These contracts were for amounts over \$75,000.

Resolution

The County follows the requirements of Minn. Stat. § 574.26.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

00-6 Budgeting Procedures

Although the County adopts a formal budget, expenditure estimates and the annual budget appropriations to the various operational funds within the County are not always clear. The County adopts the budget in summary form.

While reviewing budgeting, we noted that the Board-approved budget did not agree with the Revenue and Expenditure Budget Reports on the Integrated Financial System (IFS). County budget information on the IFS is incomplete and inaccurate.

County Financial Accounting and Reporting Standards (COFARS) recommends that the expenditure estimates and the annual budget be appropriated to the various operational entities within the County and that line-item budget detail by fund be available. The appropriations constitute maximum expenditure authorizations during the fiscal year and cannot legally be exceeded unless subsequently amended by the Board. Sound budgeting practices include: (1) an annual budget adopted by the governmental unit; (2) an accounting system that provides the basis for appropriate budgetary control; and (3) use of common terminology and classifications consistently throughout the budget, accounts, and financial reports of each fund.

The County Board should be adopting an accurate budget to be followed by the County. The adopted budget should be designed so that comparisons can be made between the current year amounts and budget year amounts. Any amendments to the budget should be Board approved and documented in the Board minutes and agree with the Revenue and Expenditure Budget Reports on the IFS.

We recommend that the County implement procedures to better comply with COFARS by having in the County Board minutes the amounts approved for each fund's revenue and expenditure budget. We also recommend that any changes to the original budget be approved by formal Board resolution and documented.

Client's Response:

Additional budget accounts have been added in 2005. The 2006 budget resolution will be updated. Will work with Jim Benson to implement procedures.

ITEM ARISING THIS YEAR

04-3

Preparation of the Annual Financial Statements

The County Board has oversight responsibility to ensure that the annual financial report is prepared for audit in a timely manner. Generally, this means that the County Board should provide the necessary directives to County staff for the preparation and the timely completion of the annual financial report. The annual financial report consists of County fund financial statements prepared in accordance with generally accepted accounting principles for governments, related notes to the financial statements, and schedules. As part of the fund financial statements, summary schedules and worksheets should be prepared by County staff to demonstrate how the accounts in the financial records are classified/summarized for the financial report.

These objectives can be achieved by using the IFS. The IFS has been upgraded to accommodate the modified accrual basis of accounting in a separate general ledger system. The first step in the process is that counties change their accounting practices and account structure to be COFARS compliant and that all receipts and disbursements be coded to revenue and expenditure accounts.

During our audit, we noted the following that will prevent the IFS from providing modified accrual financial statements:

- The General Fund has 21 reserve/fund balance accounts with cash transactions entered directly into them, causing revenues and expenditures to be misstated.
- The General Fund consists of components of two different funds and parts of two others.
- The County is fiscal agent for the Family Services Collaborative and the Social Services Special Projects Agency Funds but does not account for their financial information on the IFS.

Schedule 9
(Continued)

- County budget information on the IFS is incomplete and inaccurate.
- Both the Auditor-Treasurer’s Office and the Road and Bridge accountant entered transactions into the Road and Bridge Fund, which resulted in double entries for both tax settlements and state-paid credits, among other items.
- The Human Services Fund was out of balance by \$8,146. County staff was not aware of the difference.
- The book value on the monthly statements for a County investment held by Wachovia Securities does not agree with the County’s recorded book value.
- The translation for Fund 73 (reported as part of the General Fund) has one asset balance sheet account, two reserve balance sheet accounts, two revenue accounts, and two disbursement accounts all coded to go to a liability balance sheet account.
- Within the General Fund, unlike functions are combined into one. The Veterans Services Officer, a general government function, is combined with civil defense, which is a public safety function; and the Agriculture Inspector, a conservation function, is combined with the Zoning Inspector, which is a general government function.
- The County made numerous transfers between balance sheet, revenue, and disbursement account codes. The report translations go to various functions. It is not clear why these transactions are not entered directly to their respective functions.
- Credit transactions for the Library are not easily identifiable in the general ledger.

We recommend that the County Board work directly with County staff to provide the necessary directives to prepare modified accrual financial statements on the IFS. In order to accomplish this, the County Board should ensure that staff

Schedule 9
(Continued)

assigned to prepare this information have a good understanding of generally accepted accounting principles for governments and the time necessary to have the draft financial report completed by the date mutually agreed to with the Office of the State Auditor.

Client's Response:

Will work with Jim Benson to implement these procedures.

OTHER REQUIRED REPORTS

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STATE OF MINNESOTA

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PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
Redwood County

We have audited the financial statements of Redwood County as of and for the year ended December 31, 2004, and have issued our report thereon dated June 20, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Redwood County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 99-1 and 99-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal

control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe neither of the reportable conditions indicated above is a material weakness.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that for the items tested, Redwood County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as items 02-2, 04-1, and 04-2.

This report is intended solely for the information and use of the Board of County Commissioners and management and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: June 20, 2005



PATRICIA ANDERSON
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

Board of County Commissioners
Redwood County

Compliance

We have audited the compliance of Redwood County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2004. Redwood County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Redwood County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2004.

Internal Control Over Compliance

The management of Redwood County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Redwood County as of and for the year ended December 31, 2004, and have issued our report thereon dated June 20, 2005. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: June 20, 2005

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

Schedule 10

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 54,727
Passed Through Minnesota Department of Human Services Matching Grants for Food Stamp Program	10.561	4,894
Total U.S. Department of Agriculture		\$ 59,621
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Health Immunization Grants	93.268	\$ 750
Center for Disease Control and Prevention - Investigations and Technical Assistance	93.283	32,761
Maternal and Child Health Services Block Grant	93.994	19,767
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	7,362
Temporary Assistance for Needy Families (TANF)	93.558	82,355
Child Care Mandatory and Matching Funds	93.596	82,370
Children's Justice Grants to States	93.643	4,178
Foster Care Title IV-E	93.658	23,986
Social Services Block Grant Title XX	93.667	161,407
Chafee Foster Care Independent Living	93.674	14,525
Community Mental Health Block Grant	93.958	6,207
Total U.S. Department of Health and Human Services		\$ 435,668
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety State Domestic Preparedness Equipment Support Program	97.004	\$ 45,619
Emergency Management Performance Grants	97.042	16,381
Supplemental Planning Grant	97.051	18,977
Total U.S. Department of Homeland Security		\$ 80,977
Total Federal Awards		\$ 576,266

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

***Schedule 10
(Continued)***

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Redwood County. The County's reporting entity is defined in Note 1 to the basic financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting.
3. During 2004, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.