

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA

YEAR ENDED DECEMBER 31, 2015

Description of the Office of the State Auditor

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

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

The State Auditor performs approximately 150 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

Pension - monitors investment, financial, and actuarial reporting for approximately 700 public pension funds; and

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

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

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

Year Ended December 31, 2015



**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 FALLS, MINNESOTA**

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REDWOOD FALLS, MINNESOTA**

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

ORGANIZATION
2015

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

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Redwood County
Redwood Falls, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Redwood County, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Redwood County as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2015 the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB Statement No. 82, *Pension Issues*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Redwood County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 4, 2016, on our consideration of Redwood County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Redwood County's internal control over financial reporting and compliance.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Redwood County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) as required by Title 2 U.S. *Code of Federal Regulations Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The SEFA is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 4, 2016

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015
(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, 2015. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is \$96,570,906, of which \$76,878,093 is the net investment in capital assets, and \$6,948,411 is restricted to specific purposes. The \$12,744,402 remaining may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's net position increased by \$5,047,524 for the year ended December 31, 2015, after the restatement for Governmental Accounting Standards Board (GASB) Statements 68, 71, and 82. Additional information about the restatement can be found in Note 1.E. A large part of the increase is attributable to the County's net investment in capital assets.
- The net cost of governmental activities for the current fiscal year was \$6,955,464. The net cost was funded by general revenues totaling \$12,002,988.
- Fund balances of the governmental funds increased by \$1,152,698. Most of the increase was due to revenues exceeding expenditures in the General Fund and the Road and Bridge and Solid Waste Special Revenue Funds.
- For the year ended December 31, 2015, the assigned and unassigned fund balance of the General Fund was \$9,953,212, or 118.6 percent of the total General Fund expenditures for the year, an increase of 15.8 percentage points.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

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

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

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

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

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

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

Notes to the Financial Statements

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 32 through 88 of this report.

Other Information

Other information is provided as supplementary information regarding Redwood County's intergovernmental revenue and federal awards programs.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the County's financial position. The County's assets exceeded liabilities by \$96,570,906 at the close of 2015. The largest portion of the net position (79.6 percent) reflects the County's net investment in capital assets (for example: land, buildings, equipment, and infrastructure such as roads and bridges), less any related outstanding debt used to require those assets. However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt. Comparative data with 2014 is presented.

**Net Position
(in Thousands)**

| | Governmental Activities | |
|----------------------------------|-------------------------|------------|
| | 2015 | 2014 |
| Assets | | |
| Current and other assets | \$ 27,356 | \$ 24,928 |
| Capital assets | 83,196 | 80,878 |
| Total Assets | \$ 110,552 | \$ 105,806 |
| Deferred Outflows of Resources | | |
| Deferred pension outflows | \$ 729 | \$ - |
| Liabilities | | |
| Long-term liabilities | \$ 13,024 | \$ 9,430 |
| Other liabilities | 1,210 | 1,096 |
| Total Liabilities | \$ 14,234 | \$ 10,526 |
| Deferred Inflows of Resources | | |
| Deferred pension inflows | \$ 476 | \$ - |
| Net Position | | |
| Net investment in capital assets | \$ 76,878 | \$ 74,498 |
| Restricted | 6,949 | 5,970 |
| Unrestricted | 12,744 | 14,812 |
| Total Net Position, as reported | \$ 96,571 | \$ 95,280 |
| Change in accounting principle* | | (3,757) |
| Total Net Position, as restated | | \$ 91,523 |

*This is the first year the County implemented the new pension accounting and financial reporting standards, GASB Statements 68, 71, and 82. The County had to make a prior year change in accounting principles to record the County's net pension liability and related deferred outflows of resources.

Unrestricted net position--the part of net position that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements--is 13.2 percent of net position.

Governmental Activities

The County's activities increased net position by 5.5 percent (\$91,523,382 for 2014, after the restatement for GASB Statements 68, 71, and 82, compared to \$96,570,906 for 2015). Key elements in this increase in net position are as follows for 2015, with comparative data for 2014.

Changes in Net Position (in Thousands)

| | Governmental Activities | |
|---|-------------------------|------------------|
| | 2015 | 2014 |
| Revenues | | |
| Program revenues | | |
| Fees, charges, fines, and other | \$ 2,367 | \$ 2,655 |
| Operating grants and contributions | 6,804 | 6,448 |
| Capital grants and contributions | 2,502 | 647 |
| General revenues | | |
| Property taxes | 10,504 | 10,399 |
| Other | 1,499 | 1,348 |
| Total Revenues | <u>\$ 23,676</u> | <u>\$ 21,497</u> |
| Expenses | | |
| General government | \$ 3,759 | \$ 3,683 |
| Public safety | 3,414 | 3,333 |
| Highways and streets | 5,961 | 5,519 |
| Sanitation | 644 | 731 |
| Human services | 2,218 | 2,175 |
| Health | 250 | 326 |
| Culture and recreation | 361 | 357 |
| Conservation of natural resources | 1,645 | 1,072 |
| Economic development | 129 | 81 |
| Interest | 247 | 265 |
| Total Expenses | <u>\$ 18,628</u> | <u>\$ 17,542</u> |
| Change in net position before special items | \$ 5,048 | \$ 3,955 |
| Special items | - | (300) |
| Change in Net Position | \$ 5,048 | \$ 3,655 |
| Net Position - January 1, as restated | <u>91,523*</u> | <u>91,625</u> |
| Net Position - December 31, as reported | <u>\$ 96,571</u> | <u>\$ 95,280</u> |

*Amount includes a change in accounting principles.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

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

At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$23,109,571, an increase of \$1,152,698 in comparison with the prior year. Of the combined ending fund balances, \$14,904,522 represents assigned and unassigned fund balance which is available for spending at the County's discretion. The remainder of the fund balance is restricted to indicate that it is not available for new spending because it has already been restricted for various reasons either by state law, grant agreements, bond covenants, or is nonspendable or committed.

The General Fund is the main operating fund for the County. At the end of the current fiscal year, it had an assigned and unassigned fund balance of \$9,953,212. As a measure of the General Fund's liquidity, it may be useful to compare assigned and unassigned fund balance to total expenditures. The General Fund's assigned and unassigned fund balance represents 118.6 percent of total General Fund expenditures. The ending fund balance increased by \$567,160 during 2015, primarily due to receiving more revenues than were budgeted and spending less.

The Road and Bridge Special Revenue Fund had an assigned fund balance of \$3,000,064 at fiscal year-end, representing 35 percent of its annual expenditures. The ending fund balance increased \$403,726 during 2015, primarily due to receiving more revenue than was budgeted.

The Human Services Special Revenue Fund had an assigned fund balance of \$722,141 at fiscal year-end.

The Solid Waste Special Revenue Fund had an assigned fund balance of \$295,777 at fiscal year-end. The ending fund balance increased \$274,316 during 2015.

The Ditch Special Revenue Fund had restricted fund balance of \$1,627,547 at fiscal year-end. The ending fund balance decreased \$86,588 during 2015, primarily due to spending more than was budgeted.

The Springdale Watershed Special Revenue Fund balance decreased \$49,298 during 2015. The Springdale Watershed Special Revenue Fund was new in 2013 and was created to account for restricted property tax revenues to be used to improve the watershed district in Springdale Township. The project was completed in 2015.

The Debt Service Fund had restricted fund balance of \$1,016,032 at fiscal year-end. The Debt Service Fund was created in 2008 due to the issuance of bonds for the renovation of the Government Center, remodeling of the Courthouse, and the purchase of equipment. In 2013, new bonds were sold for the construction and remodeling of the Law Enforcement Center.

Governmental Activities

The County's total revenues were \$23,675,636. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2015.

Table 1
Total County Revenues

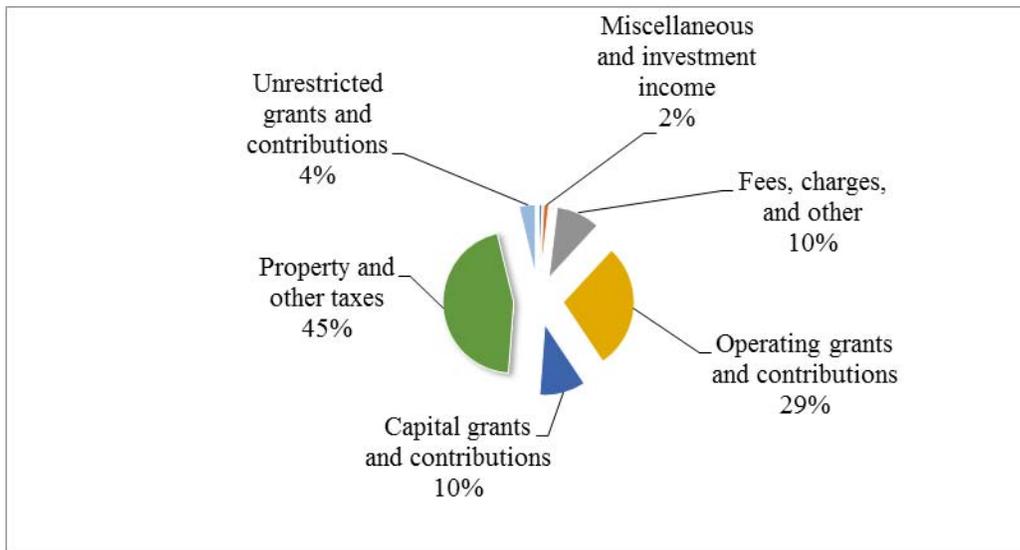
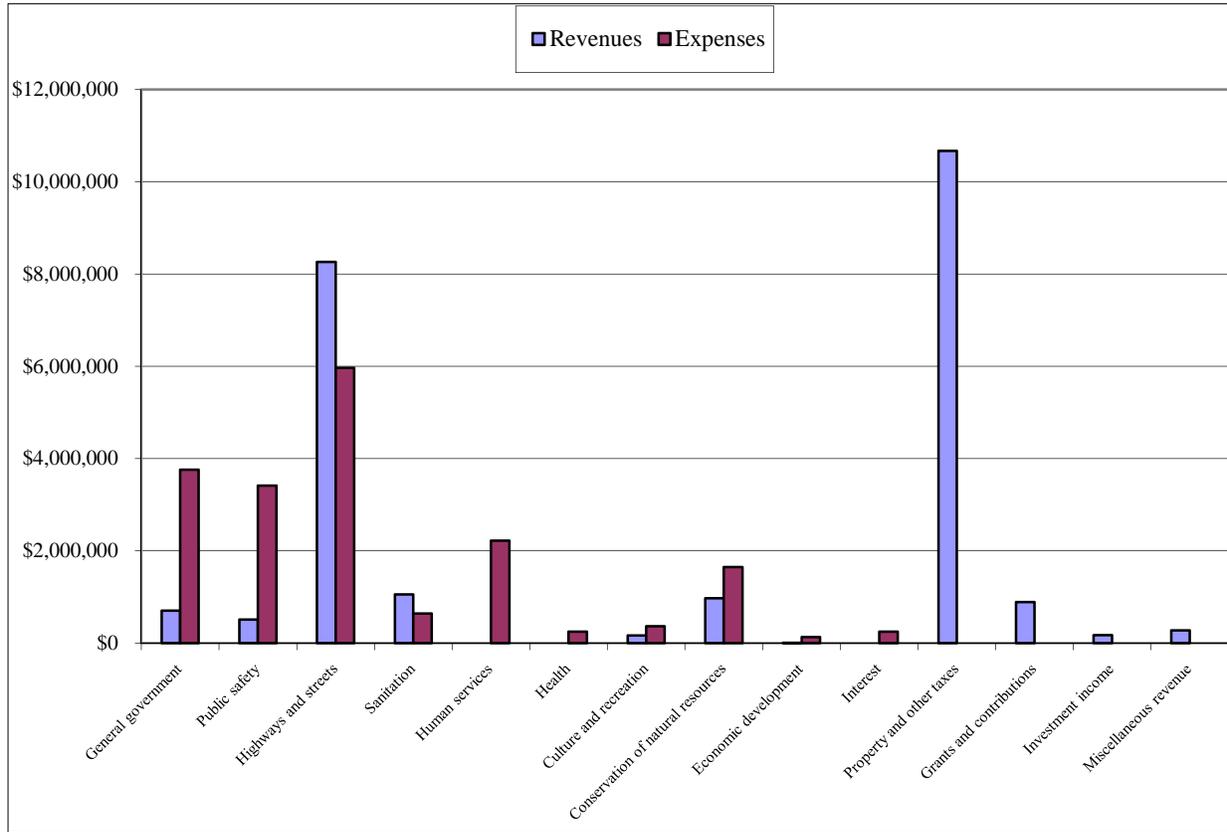


Table 2 presents the cost and revenue of each program, as well as the County's general revenues.

Total program and general revenues for the County were \$23,675,636, while total expenses were \$18,628,112. This reflects a \$5,047,524 increase in net position for the year ended December 31, 2015.

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



The cost of all governmental activities this year was \$18,628,112. However, as shown on the Statement of Activities on Exhibit 2, the amount that taxpayers ultimately financed for these activities through County taxes was only \$10,503,509, because some of the cost was paid by those who directly benefited from the programs (\$2,367,111) or by other governments and organizations that subsidized certain programs with grants and contributions (\$9,305,537). The County paid for the remaining “public benefit” portion of governmental activities with general revenues, primarily taxes (some of which could be used only for certain programs) and other revenues, such as grants and contributions not restricted to specific programs and investment income.

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

**Table 3
Governmental Activities**

| | Total Cost of Services 2015 | Net Cost (Revenue) of Services 2015 |
|-----------------------------------|-----------------------------------|--|
| | <u> </u> | <u> </u> |
| Highways and streets | \$ 5,960,945 | \$ (2,300,471) |
| General government | 3,759,087 | 3,055,021 |
| Public safety | 3,414,080 | 2,903,710 |
| Human services | 2,217,454 | 2,217,454 |
| Conservation of natural resources | 1,645,264 | 671,333 |
| All others | <u>1,631,282</u> | <u>408,417</u> |
| Totals | <u>\$ 18,628,112</u> | <u>\$ 6,955,464</u> |

General Fund Budgetary Highlights

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

The actual charges to appropriations (expenditures) were \$490,481 less than the final budget amounts. One of the most significant positive variances of \$128,984 occurred in the E-911 system, where the actual expenditures were less than the amount budgeted. Another significant positive variance of \$120,632 occurred in buildings and plant, where the actual expenditures were also less than the amount budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's capital assets for its governmental activities at December 31, 2015, totaled \$83,196,233 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, equipment, and infrastructure. The investment in capital assets increased \$2,318,645, or 2.9 percent, from the previous year. The major capital asset event was:

| | |
|--|--------------|
| Completion of Law Enforcement Center remodel | \$ 5,245,328 |
|--|--------------|

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

| | 2015 | 2014 |
|-----------------------------------|------------------|------------------|
| Land | \$ 2,064 | \$ 2,058 |
| Infrastructure | 63,008 | 64,194 |
| Buildings | 10,516 | 5,489 |
| Improvements other than buildings | 362 | 388 |
| Machinery and equipment | 3,035 | 2,954 |
| Construction in progress | 4,211 | 5,795 |
| Totals | \$ 83,196 | \$ 80,878 |

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

Long-Term Debt

The County has net debt at December 31, 2015, of \$7,582,323. The debt is for financing the renovation of the Government Center and remodeling of the Courthouse (15-year term with final payment February 1, 2024). In 2013, the County issued a bond for the construction and remodel of the Law Enforcement Center (15-year term with final payment February 1, 2028) and a bond shared with Renville County for the construction of the joint Recycling Facility (15-year term with final payment February 1, 2028). Other debt is lease agreements for financing squad cars for the Sheriff's Department, copiers for various departments, and a postage machine.

Table 5
Outstanding Debt

| | 2015 | 2014 |
|--|---------------------|---------------------|
| General obligation improvement bonds, Series 2008A | \$ 2,639,739 | \$ 2,872,831 |
| General obligation law enforcement center bonds, Series 2013A | 3,038,465 | 3,241,253 |
| General obligation recycling facility bonds, Series 2013A | 1,799,990 | 1,921,656 |
| Leased squad cars | 78,560 | 97,724 |
| Leased copiers and postage machine | 25,569 | 31,879 |
| Totals | \$ 7,582,323 | \$ 8,165,343 |

Minnesota statutes limit the amount of debt a county may levy to 3 percent of its total market value. At the end of 2015, the County's outstanding debt was 0.16 percent of its total estimated market value.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The County's elected and appointed officials considered many factors when setting the 2016 budget, tax rates, and fees that will be charged for the year.

- The average unemployment rate for Redwood County at the end of 2015 was 4.1 percent and shows no change from one year ago. The state unemployment rate was 3.7 percent. The 2010 County population was 16,059, a decrease of 756 from the 2000 census of 16,815.
- At the end of 2015, Redwood County set its 2016 revenue and expenditure budgets.
- The 2016 property tax levy for the County increased to \$11,373,770, compared to \$10,968,138 in 2015.

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2015**

Assets

Current assets

| | |
|--------------------------------|---------------|
| Cash and pooled investments | \$ 13,394,953 |
| Investments | 7,955,848 |
| Taxes receivable | |
| Delinquent | 49,952 |
| Special assessments receivable | |
| Current | 267,992 |
| Delinquent | 35,489 |
| Accounts receivable | 8,245 |
| Accrued interest receivable | 16,813 |
| Due from other governments | 2,658,623 |
| Loans receivable | 16,364 |
| Inventories | 151,965 |
| Prepaid items | 26,928 |

Noncurrent assets

| | |
|--------------------------------|-----------|
| Loans receivable | 2,634,448 |
| Special assessments receivable | 138,567 |

Capital assets

| | |
|---|-------------------|
| Non-depreciable | 6,275,401 |
| Depreciable - net of accumulated depreciation | <u>76,920,832</u> |

Total Assets

\$ 110,552,420

Deferred Outflows of Resources

| | |
|---------------------------|-------------------|
| Deferred pension outflows | <u>\$ 728,700</u> |
|---------------------------|-------------------|

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**EXHIBIT 1
(Continued)**

**STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2015**

Liabilities

Current liabilities

| | | |
|---|----|---------|
| Accounts payable | \$ | 284,726 |
| Salaries payable | | 200,409 |
| Contracts payable | | 542,657 |
| Due to other governments | | 79,761 |
| Accrued interest payable | | 97,257 |
| Unearned revenue | | 4,896 |
| Compensated absences payable - current | | 103,260 |
| Other postemployment benefits payable - current | | 50,701 |
| General obligation bonds payable - current | | 565,000 |
| Capital leases payable - current | | 54,236 |
| Loans payable - current | | 46,852 |

Noncurrent liabilities

| | | |
|--|--|-----------|
| Compensated absences payable | | 693,500 |
| Other postemployment benefits payable | | 287,872 |
| Net pension liability | | 4,118,346 |
| Capital leases payable | | 49,893 |
| General obligation bonds payable - net | | 6,913,194 |
| Loans payable | | 141,057 |

| | | |
|--------------------------|-----------|--------------------------|
| Total Liabilities | \$ | <u>14,233,617</u> |
|--------------------------|-----------|--------------------------|

Deferred Inflows of Resources

| | | |
|--------------------------|----|----------------|
| Deferred pension inflows | \$ | <u>476,597</u> |
|--------------------------|----|----------------|

Net Position

| | | |
|-----------------------------------|----|-------------------|
| Net investment in capital assets | \$ | 76,878,093 |
| Restricted for | | |
| Public safety | | 392,889 |
| Conservation of natural resources | | 1,554,809 |
| Highways and streets | | 3,722,788 |
| Debt service | | 937,205 |
| Other purposes | | 340,720 |
| Unrestricted | | <u>12,744,402</u> |

| | | |
|---------------------------|-----------|---------------------------------|
| Total Net Position | \$ | <u><u>96,570,906</u></u> |
|---------------------------|-----------|---------------------------------|

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | <u>Expenses</u> | <u>Program Revenues</u> | | | <u>Net (Expense) Revenue and Changes in Net Position</u> |
|--|----------------------|--|---|---|--|
| | | <u>Fees, Charges, Fines, and Other</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | |
| <u>Functions/Programs</u> | | | | | |
| Primary government | | | | | |
| Governmental activities | | | | | |
| General government | \$ 3,759,087 | \$ 668,534 | \$ 25,117 | \$ 10,415 | \$ (3,055,021) |
| Public safety | 3,414,080 | 224,592 | 285,778 | - | (2,903,710) |
| Highways and streets | 5,960,945 | 176,645 | 5,835,534 | 2,249,237 | 2,300,471 |
| Sanitation | 643,417 | 819,479 | 237,221 | - | 413,283 |
| Human services | 2,217,454 | - | - | - | (2,217,454) |
| Health | 250,310 | - | - | - | (250,310) |
| Culture and recreation | 361,247 | 71,490 | 93,675 | - | (196,082) |
| Conservation of natural resources | 1,645,264 | 406,371 | 325,077 | 242,483 | (671,333) |
| Economic development | 129,167 | - | 1,000 | - | (128,167) |
| Interest | 247,141 | - | - | - | (247,141) |
| Total Governmental Activities | \$ 18,628,112 | \$ 2,367,111 | \$ 6,803,402 | \$ 2,502,135 | \$ (6,955,464) |
| General Revenues | | | | | |
| Property taxes | | | | \$ 10,503,509 | |
| Other taxes | | | | 11,402 | |
| Payments in lieu of tax | | | | 152,285 | |
| Grants and contributions not restricted to specific programs | | | | 889,889 | |
| Unrestricted investment income | | | | 169,089 | |
| Miscellaneous | | | | 276,814 | |
| Total general revenues | | | | \$ 12,002,988 | |
| Change in net position | | | | \$ 5,047,524 | |
| Net Position - Beginning, as restated (Note 1.E.) | | | | 91,523,382 | |
| Net Position - Ending | | | | \$ 96,570,906 | |

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

| | <u>General</u> | <u>Road and Bridge</u> | <u>Human Services</u> |
|-----------------------------------|----------------------|----------------------------|---------------------------|
| <u>Assets</u> | | | |
| Cash and pooled investments | \$ 5,133,152 | \$ 4,446,023 | \$ 693,256 |
| Undistributed cash in agency fund | 101,583 | 22,211 | 28,885 |
| Petty cash and change funds | 1,360 | - | - |
| Investments | 6,199,922 | - | - |
| Taxes receivable | | | |
| Delinquent | 28,830 | 7,424 | 10,467 |
| Special assessments receivable | | | |
| Delinquent | - | - | - |
| Noncurrent | 177,346 | - | - |
| Accounts receivable | 3,687 | 3,149 | - |
| Accrued interest receivable | 13,994 | - | - |
| Due from other funds | - | 828 | - |
| Due from other governments | 84,827 | 2,543,573 | - |
| Advances to other funds | - | - | - |
| Loans receivable | 1,100,812 | - | - |
| Inventories | - | 151,965 | - |
| Prepaid items | 20,004 | 6,924 | - |
| Total Assets | \$ 12,865,517 | \$ 7,182,097 | \$ 732,608 |

EXHIBIT 3

| <u>Solid Waste</u> | <u>Ditch</u> | <u>Springdale Watershed</u> | <u>Debt Service</u> | <u>Total</u> |
|---------------------|---------------------|---------------------------------|---------------------|----------------------|
| \$ 330,144 | \$ 913,214 | \$ - | \$ 1,007,028 | \$ 12,522,817 |
| 23,074 | 4,598 | 21 | 8,612 | 188,984 |
| 30 | - | - | - | 1,390 |
| - | 1,755,926 | - | - | 7,955,848 |
| - | - | 231 | 3,000 | 49,952 |
| 35,448 | 41 | - | - | 35,489 |
| - | 229,213 | - | - | 406,559 |
| 763 | 646 | - | - | 8,245 |
| - | 2,819 | - | - | 16,813 |
| - | - | - | - | 828 |
| - | 29,831 | - | 392 | 2,658,623 |
| - | 243 | - | - | 243 |
| 1,550,000 | - | - | - | 2,650,812 |
| - | - | - | - | 151,965 |
| - | - | - | - | 26,928 |
| <u>\$ 1,939,459</u> | <u>\$ 2,936,531</u> | <u>\$ 252</u> | <u>\$ 1,019,032</u> | <u>\$ 26,675,496</u> |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

| | General | Road and Bridge | Human Services |
|---|----------------------|----------------------------|---------------------------|
| <u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u> | | | |
| Liabilities | | | |
| Accounts payable | \$ 46,356 | \$ 24,590 | \$ - |
| Salaries payable | 144,978 | 51,994 | - |
| Contracts payable | 106,972 | 435,685 | - |
| Due to other funds | 803 | - | - |
| Due to other governments | 72,249 | 7,348 | - |
| Advances from other funds | - | - | - |
| Unearned revenue | 4,896 | - | - |
| | \$ 376,254 | \$ 519,617 | \$ - |
| Deferred Inflows of Resources | | | |
| Unavailable revenue | \$ 216,309 | \$ 2,015,688 | \$ 10,467 |
| Fund Balances | | | |
| Nonspendable | \$ 1,122,368 | \$ 158,889 | \$ - |
| Restricted | 752,780 | 1,487,839 | - |
| Committed | 444,594 | - | - |
| Assigned | 4,417,065 | 3,000,064 | 722,141 |
| Unassigned | 5,536,147 | - | - |
| | \$ 12,272,954 | \$ 4,646,792 | \$ 722,141 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | \$ 12,865,517 | \$ 7,182,097 | \$ 732,608 |

EXHIBIT 3
(Continued)

| <u>Solid Waste</u> | <u>Ditch</u> | <u>Springdale Watershed</u> | <u>Debt Service</u> | <u>Total</u> |
|----------------------------|----------------------------|---------------------------------|----------------------------|-----------------------------|
| \$ 13,070 | \$ 141,859 | \$ - | \$ - | \$ 225,875 |
| - | 3,437 | - | - | 200,409 |
| - | - | - | - | 542,657 |
| - | 25 | - | - | 828 |
| 164 | - | - | - | 79,761 |
| - | - | 243 | - | 243 |
| - | - | - | - | 4,896 |
| <u>\$ 13,234</u> | <u>\$ 145,321</u> | <u>\$ 243</u> | <u>\$ -</u> | <u>\$ 1,054,669</u> |
| <u>\$ 35,448</u> | <u>\$ 230,113</u> | <u>\$ 231</u> | <u>\$ 3,000</u> | <u>\$ 2,511,256</u> |
| \$ 1,550,000 | \$ - | \$ - | \$ - | \$ 2,831,257 |
| 45,000 | 1,627,547 | - | 1,016,032 | 4,929,198 |
| - | - | - | - | 444,594 |
| 295,777 | 933,550 | - | - | 9,368,597 |
| - | - | (222) | - | 5,535,925 |
| <u>\$ 1,890,777</u> | <u>\$ 2,561,097</u> | <u>\$ (222)</u> | <u>\$ 1,016,032</u> | <u>\$ 23,109,571</u> |
| <u>\$ 1,939,459</u> | <u>\$ 2,936,531</u> | <u>\$ 252</u> | <u>\$ 1,019,032</u> | <u>\$ 26,675,496</u> |

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2015**

Fund balance - total governmental funds (Exhibit 3) \$ 23,109,571

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. 83,196,233

Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in governmental funds. 728,700

An internal service fund is used by Redwood County to charge the cost of the self-funded insurance programs to functions. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net position. 622,911

Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds. 2,511,256

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

| | | | |
|-------------------------------|----|-------------|--------------|
| Bonds payable | \$ | (7,440,000) | |
| Leases payable | | (104,129) | |
| Other postemployment benefits | | (338,573) | |
| Compensated absences | | (796,760) | |
| Net pension liability | | (4,118,346) | |
| Loans payable | | (187,909) | |
| Unamortized premium on bonds | | (53,455) | |
| Unamortized discount on bonds | | 15,261 | |
| Accrued interest payable | | (97,257) | (13,121,168) |

Deferred inflows of resources resulting from pension obligations are not due and payable in the current period, and, therefore, are not reported in governmental funds. (476,597)

Net Position of Governmental Activities (Exhibit 1) \$ 96,570,906

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | <u>General</u> | <u>Road and Bridge</u> | <u>Human Services</u> |
|---|----------------------|----------------------------|---------------------------|
| Revenues | | | |
| Taxes | \$ 6,015,490 | \$ 1,714,938 | \$ 2,121,236 |
| Other taxes | 11,402 | - | - |
| Special assessments | 55,845 | - | - |
| Licenses and permits | 57,148 | - | - |
| Intergovernmental | 1,377,003 | 7,106,512 | 99,296 |
| Charges for services | 730,746 | 35,862 | - |
| Gifts and contributions | 11,230 | - | - |
| Investment earnings | 125,393 | 3,033 | - |
| Miscellaneous | 492,134 | 140,783 | - |
| Total Revenues | \$ 8,876,391 | \$ 9,001,128 | \$ 2,220,532 |
| Expenditures | | | |
| Current | | | |
| General government | \$ 3,700,646 | \$ - | \$ - |
| Public safety | 3,221,261 | - | - |
| Highways and streets | - | 8,043,807 | - |
| Sanitation | - | - | - |
| Culture and recreation | 260,027 | - | - |
| Conservation of natural resources | 607,801 | - | - |
| Economic development | 129,167 | - | - |
| Intergovernmental | 360,262 | 516,915 | 2,217,454 |
| Debt service | | | |
| Principal | 102,758 | - | - |
| Interest | 13,394 | - | - |
| Administrative (fiscal) charges | - | - | - |
| Total Expenditures | \$ 8,395,316 | \$ 8,560,722 | \$ 2,217,454 |
| Excess of Revenues Over (Under) Expenditures | \$ 481,075 | \$ 440,406 | \$ 3,078 |
| Other Financing Sources (Uses) | | | |
| Capital leases | \$ 31,355 | \$ - | \$ - |
| Loans issued | 54,730 | - | - |
| Total Other Financing Sources (Uses) | \$ 86,085 | \$ - | \$ - |
| Net Change in Fund Balance | \$ 567,160 | \$ 440,406 | \$ 3,078 |
| Fund Balance - January 1 | 11,705,794 | 4,243,066 | 719,063 |
| Increase (decrease) in inventories | - | (36,680) | - |
| Fund Balance - December 31 | \$ 12,272,954 | \$ 4,646,792 | \$ 722,141 |

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

EXHIBIT 5

| <u>Solid Waste</u> | <u>Ditch</u> | <u>Springdale Watershed</u> | <u>Debt Service</u> | <u>Total</u> |
|----------------------------|----------------------------|---------------------------------|----------------------------|-----------------------------|
| \$ - | \$ - | \$ 24,003 | \$ 637,398 | \$ 10,513,065 |
| - | - | - | - | 11,402 |
| 609,327 | 392,534 | - | - | 1,057,706 |
| - | - | - | - | 57,148 |
| 237,226 | 190,841 | 250,010 | 32,666 | 9,293,554 |
| - | - | - | - | 766,608 |
| - | - | - | - | 11,230 |
| 20,000 | 22,689 | - | - | 171,115 |
| 207,318 | 240 | - | - | 840,475 |
| <u>\$ 1,073,871</u> | <u>\$ 606,304</u> | <u>\$ 274,013</u> | <u>\$ 670,064</u> | <u>\$ 22,722,303</u> |
| | | | | |
| \$ - | \$ - | \$ - | \$ - | \$ 3,700,646 |
| - | - | - | - | 3,221,261 |
| - | - | - | - | 8,043,807 |
| 548,518 | - | - | - | 548,518 |
| - | - | - | - | 260,027 |
| - | 692,892 | 323,311 | - | 1,624,004 |
| - | - | - | - | 129,167 |
| 83,508 | - | - | - | 3,178,139 |
| 120,000 | - | - | 435,000 | 657,758 |
| 47,015 | - | - | 193,598 | 254,007 |
| 514 | - | - | 1,162 | 1,676 |
| <u>\$ 799,555</u> | <u>\$ 692,892</u> | <u>\$ 323,311</u> | <u>\$ 629,760</u> | <u>\$ 21,619,010</u> |
| <u>\$ 274,316</u> | <u>\$ (86,588)</u> | <u>\$ (49,298)</u> | <u>\$ 40,304</u> | <u>\$ 1,103,293</u> |
| | | | | |
| \$ - | \$ - | \$ - | \$ - | \$ 31,355 |
| - | - | - | - | 54,730 |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 86,085</u> |
| <u>\$ 274,316</u> | <u>\$ (86,588)</u> | <u>\$ (49,298)</u> | <u>\$ 40,304</u> | <u>\$ 1,189,378</u> |
| | | | | |
| 1,616,461 | 2,647,685 | 49,076 | 975,728 | 21,956,873 |
| - | - | - | - | (36,680) |
| <u>\$ 1,890,777</u> | <u>\$ 2,561,097</u> | <u>\$ (222)</u> | <u>\$ 1,016,032</u> | <u>\$ 23,109,571</u> |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

Net change in fund balance - total governmental funds (Exhibit 5) \$ 1,189,378

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

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

| | | |
|---|--------------------|---------|
| Deferred inflows of resources - December 31 | \$ 2,511,256 | |
| Deferred inflows of resources - January 1 | <u>(1,617,598)</u> | 893,658 |

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

| | | |
|--|--------------------|-----------|
| Expenditures for general capital assets and infrastructure | \$ 4,903,970 | |
| Net book value of assets disposed of | (61,636) | |
| Current year depreciation | <u>(2,523,689)</u> | 2,318,645 |

Issuing long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources. Neither transaction has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued; whereas, those amounts are deferred and amortized over the life of the debt in the statement of activities.

| | | |
|--|--------------|----------|
| Principal repayments | | |
| General obligation bonds | \$ 555,000 | |
| Loans payable | 45,929 | |
| Leases payable | 56,829 | |
| Amortization of discounts and premiums | <u>2,546</u> | 660,304 |
| New debt issued (see Note 3.C.6. for more information) | | (87,967) |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**EXHIBIT 6
(Continued)**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

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 | \$ | 5,996 | |
| Change in compensated absences | | (11,825) | |
| Change in other postemployment benefits | | (36,654) | |
| Change in net pension liability, as restated | | (159,139) | |
| Change in deferred outflows of resources, as restated | | 525,936 | |
| Change in deferred inflows of resources | | (476,597) | |
| Change in inventories | | (36,680) | (188,963) |
| | | | |

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

262,469

Change in Net Position of Governmental Activities (Exhibit 2)

\$ 5,047,524

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PROPRIETARY FUND

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2015**

| | <u>Governmental Activities Internal Service Fund</u> |
|-----------------------------|--|
| <u>Assets</u> | |
| Current assets | |
| Cash and pooled investments | \$ 681,762 |
| <u>Liabilities</u> | |
| Current liabilities | |
| Accounts payable | <u>58,851</u> |
| <u>Net Position</u> | |
| Unrestricted | <u><u>\$ 622,911</u></u> |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | <u>Governmental Activities Internal Service Fund</u> |
|-----------------------------------|--|
| Operating Revenues | |
| Charges for services | \$ 1,275,548 |
| Operating Expenses | |
| Cost of service | <u>1,013,079</u> |
| Operating Income (Loss) | \$ 262,469 |
| Net Position - January 1 | <u>360,442</u> |
| Net Position - December 31 | <u><u>\$ 622,911</u></u> |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2015
Increase (Decrease) in Cash and Cash Equivalents**

| | Governmental Activities |
|---|------------------------------------|
| | Internal Service Fund |
| Cash Flows from Operating Activities | |
| Receipts from internal services provided | \$ 1,275,548 |
| Payments to suppliers | (1,011,372) |
| | \$ 264,176 |
| Net cash provided by (used in) operating activities | \$ 264,176 |
| Cash and Cash Equivalents at January 1 | 417,586 |
| Cash and Cash Equivalents at December 31 | \$ 681,762 |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities | |
| Operating income (loss) | \$ 262,469 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities activities | |
| Increase (decrease) in accounts payable | 1,707 |
| | 1,707 |
| Net Cash Provided by (Used in) Operating Activities | \$ 264,176 |

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FIDUCIARY FUNDS

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2015**

Assets

| | |
|-----------------------------|-------------------|
| Cash and pooled investments | <u>\$ 305,585</u> |
|-----------------------------|-------------------|

Liabilities

| | |
|--------------------------|-------------------|
| Due to other governments | <u>\$ 305,585</u> |
|--------------------------|-------------------|

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015

1. Summary of Significant Accounting Policies

The County’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2015. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Blended Component Unit

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

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures and Jointly-Governed Organizations

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

B. Basic Financial Statements

1. Government-Wide Statements

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

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

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

Additionally, the County reports the following fund types:

- The Internal Service Fund accounts for health insurance premiums and payments.
- Agency funds are custodial in nature and do not present results of operations or have a measurement focus. These funds account for assets that the County holds for others in an agent capacity.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Redwood County considers all revenues as available if collected within 60 days after the end of the current period. Property taxes are recognized as revenues in the year for which they are levied provided they are also available. Shared revenues are generally recognized in the period the appropriation goes into effect and the revenues are available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and are available. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

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

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

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor-Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2015, 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 2015 were \$9,144.

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

Redwood County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The investment in the pool is measured at the net asset value per share provided by the pool.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

2. Receivables and Payables

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

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

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

Special assessments receivable consist of delinquent special assessments payable in the years 2010 through 2015 and deferred special assessments payable in 2016 and after. Unpaid special assessments at December 31 are classified in the financial statements as delinquent special assessments.

No allowance for uncollectible taxes/special assessments has been provided because such amounts are not expected to be material.

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Inventories and Prepaid Items

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

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

4. Capital Assets

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

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

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

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

| <u>Assets</u> | <u>Years</u> |
|------------------------------------|--------------|
| Buildings | 25 - 40 |
| Building improvements | 20 - 35 |
| Public domain infrastructure | 15 - 70 |
| Furniture, equipment, and vehicles | 3 - 20 |
| Intangible assets | 3 - 7 |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. A liability for compensated absences is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. The government-wide statement of net position reports both current and noncurrent portions of compensated absences. The current portion consists of an amount based on a trend analysis of current usage of vacation and vested sick leave. The noncurrent portion consists of the remaining amount of vacation and total vested sick leave.

6. Long-Term Obligations

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

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Pension Plan

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

8. Deferred Outflows/Inflows of Resources

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

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

REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA

1. Summary of Significant Accounting Policies

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

8. Deferred Outflows/Inflows of Resources (Continued)

considered to be available to liquidate liabilities of the current period. Unavailable revenue arises only under the modified accrual basis of accounting and, accordingly, is reported only in the governmental funds balance sheet. The unavailable revenue amount is deferred and recognized as an inflow of resources in the period that the amounts become available. The County also has deferred pension inflows. These inflows arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience and also pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position.

9. Unearned/Unavailable Revenue

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

10. Classification of Net Position

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

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Classification of Fund Balances

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

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

REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA

1. Summary of Significant Accounting Policies

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

11. Classification of Fund Balances (Continued)

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

12. Minimum Fund Balance

Redwood County has adopted a minimum fund balance policy for the General Fund. The General Fund is heavily reliant on property tax revenues to fund current operations. However, current property tax revenues are not available for distribution until June. Therefore, the County Board has determined it needs to maintain a minimum unrestricted fund balance (committed, assigned, and unassigned) of no less than three months of operating expenditures. The fund balance policy was adopted by the County Board on December 27, 2011. At December 31, 2015, unrestricted fund balance for the General Fund was at or above the minimum fund balance level.

13. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets 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. Change in Accounting Principles

During the year ended December 31, 2015, the County adopted new accounting guidance by implementing the provisions of GASB Statements 68, 71, and 82. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, requires governments providing defined benefit pensions to

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Change in Accounting Principles (Continued)

employees through pension plans administered through trusts to record their proportionate share of the net pension obligation as a liability on their financial statements along with related deferred outflows of resources, deferred inflows of resources, and pension expense. This statement also requires additional note disclosures and schedules in the required supplementary information.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, addresses an issue regarding amounts associated with contributions made to a pension plan after the measurement date of the net pension liability.

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statement No. 68*, modifies the measure of payroll that is presented in the required supplementary information schedules.

GASB Statements 68 and 71 require the County to report its proportionate share of the PERA total employers' unfunded pension liability. As a result, beginning net position has been restated to record the County's net pension liability of (\$3,959,207) and related deferred outflows of resources of \$202,764.

| | Governmental Activities |
|---|----------------------------|
| Net Position, January 1, 2015, as previously reported | \$ 95,279,825 |
| Change in accounting principles | (3,756,443) |
| Net Position, January 1, 2015, as restated | \$ 91,523,382 |

2. Stewardship, Compliance, and Accountability

Deficit Fund Balance

The Springdale Watershed Special Revenue Fund had a deficit fund balance of \$222 at December 31, 2015. This was due to taxes not being collected in 2015, thus requiring advance funds from the Ditch Special Revenue Fund to cover the cash deficit. This deficit will be eliminated with the collection of the delinquent taxes.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

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

| | |
|---|---------------------------------|
| Government-wide statement of net position | |
| Governmental activities | |
| Cash and pooled investments | \$ 13,394,953 |
| Investments | 7,955,848 |
| Statement of fiduciary net position | |
| Cash and pooled investments | <u>305,585</u> |
| Total Cash and Investments | <u><u>\$ 21,656,386</u></u> |

a. Deposits

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

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County's policy is to minimize deposit custodial credit risk by obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law. As of December 31, 2015, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments (Continued)

- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County's policy is to minimize interest rate risk by: (1) structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; (2) investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools; and (3) limiting the average maturity in accordance with the County's cash requirements.

Credit Risk

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County's policy is to minimize investment custodial credit risk by permitting brokers that obtained investments for the County to hold them only to the extent Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage are available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. As of December 31, 2015, the County's investments held by brokers were not subject to custodial credit risk.

Concentration of Credit Risk

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

The following table presents the County's cash and investment balances at December 31, 2015, and information relating to potential investment risks:

| Investment Type | Credit Risk | | Concentration Risk | Interest Rate Risk | Carrying (Fair) Value |
|------------------------------------|---------------|---------------|-----------------------------|--------------------|-----------------------|
| | Credit Rating | Rating Agency | Over 5 Percent of Portfolio | Maturity Date | |
| U.S. government agency securities | | | | | |
| Federal Home Loan Bank Bonds | AA+ | S&P | | 11/24/2020 | \$ 498,750 |
| Federal Home Loan Bank Bonds | AA+ | S&P | | 05/21/2020 | 300,276 |
| Federal Home Loan Bank Bonds | AAA | S&P | | 04/27/2020 | 50,062 |
| Federal Home Loan Bank Bonds | AAA | S&P | | 08/22/2018 | 24,735 |
| | | | <5% | | |
| Total Federal Home Loan Bank Bonds | | | | | \$ 873,823 |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments (Continued)

| Investment Type | Credit Risk | | Concentration Risk Over 5 Percent of Portfolio | Interest Rate Risk Maturity Date | Carrying (Fair) Value |
|--|------------------|------------------|--|---|-----------------------------|
| | Credit Rating | Rating Agency | | | |
| U.S. government agency securities (Continued) | | | | | |
| Federal Farm Credit Bank | AAA | S&P | | 11/13/2017 | \$ 39,819 |
| Federal Farm Credit Bank | AAA | S&P | | 07/15/2020 | 34,599 |
| Federal Farm Credit Bank | AAA | S&P | | 04/02/2018 | 49,867 |
| Total Federal Farm Credit Bank | | | <5% | | \$ 124,285 |
| Federal National Mortgage Association Bonds | N/R | N/A | | 04/01/2017 | \$ 2,965 |
| Federal National Mortgage Association Bonds | AAA | S&P | | 06/20/2019 | 85,651 |
| Federal National Mortgage Association Bonds | AAA | S&P | | 08/28/2019 | 74,871 |
| Federal National Mortgage Association Bonds | AAA | S&P | | 01/09/2020 | 74,171 |
| Federal National Mortgage Association Bonds | AAA | S&P | | 12/14/2020 | 24,902 |
| Federal National Mortgage Association Bonds | N/R | N/A | | 10/01/2040 | 21,409 |
| Federal National Mortgage Association Bonds | N/R | N/A | | 01/01/2041 | 22,246 |
| Federal National Mortgage Association Bonds | N/R | N/A | | 09/25/2041 | 21,474 |
| Total Federal National Mortgage Association Bonds | | | <5% | | \$ 327,689 |
| Federal Home Loan Mortgage Corporation Notes | AAA | S&P | | 03/05/2020 | \$ 40,320 |
| Federal Home Loan Mortgage Corporation Notes | AA+ | S&P | | 05/25/2021 | 994,000 |
| Federal Home Loan Mortgage Corporation Notes | AAA | S&P | | 03/12/2020 | 75,659 |
| Federal Home Loan Mortgage Corporation Notes | AAA | S&P | | 12/29/2017 | 50,034 |
| Federal Home Loan Mortgage Corporation Notes | AAA | S&P | | 09/30/2020 | 50,091 |
| Federal Home Loan Mortgage Corporation Notes | N/R | N/A | | 03/15/2039 | 12,471 |
| Federal Home Loan Mortgage Corporation Notes | N/R | N/A | | 10/01/2041 | 10,469 |
| Total Federal Home Loan Mortgage Corporation Notes | | | >5% | | \$ 1,233,044 |
| Maine State Municipal Bond Bank | AA+ | S&P | <5% | 11/01/2017 | \$ 50,054 |
| Georgia State - G.O. Bond | AAA | S&P | <5% | 10/01/2019 | \$ 25,864 |
| Carrboro North Carolina - G.O. Bond | AAA | S&P | <5% | 02/01/2018 | \$ 51,240 |
| Montgomery County Tennessee - G.O. Bond | AA+ | S&P | <5% | 05/01/2018 | \$ 29,924 |
| Olathe Kansas - G.O. Bond | AA+ | S&P | <5% | 10/01/2017 | \$ 25,897 |
| Florida State Hurricane Catastrophe Revenue Bond | AA- | S&P | <5% | 07/01/2018 | \$ 50,301 |
| Investment pools/mutual funds | | | | | |
| MAGIC Fund | N/R | N/A | >5% | N/A | \$ 10,471,834 |
| Money Market GOTXX | N/R | N/A | <5% | N/A | 27,190 |
| Total investment pools/mutual funds | | | | | \$ 10,499,024 |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments (Continued)

| Investment Type | Credit Risk | | Concentration | Interest | Carrying (Fair) Value |
|------------------------------------|------------------|------------------|--|-------------------------------|-----------------------------|
| | Credit Rating | Rating Agency | Risk Over 5 Percent of Portfolio | Rate Risk Maturity Date | |
| Negotiable certificates of deposit | N/A | N/A | >5% | Varies | \$ 4,892,536 |
| Repurchase agreement | N/A | N/A | >5% | N/A | \$ 1,885,001 |
| Total investments | | | | | \$ 20,068,682 |
| Checking | | | | | (341,186) |
| Savings | | | | | 1,683,500 |
| Certificates of deposit | | | | | 244,000 |
| Petty cash and change funds | | | | | 1,390 |
| Total Cash and Investments | | | | | \$ 21,656,386 |

N/A - Not Applicable

N/R - Not Rated

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

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

2. Loans Receivable

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

Starting in 2009, the Redwood County Economic Development Authority (RCEDA) received a Rural Business Enterprise Grant through the United States Department of Agriculture with a match from the County to provide revolving loans to area businesses. The County Board approves all loans recommended by the RCEDA. On February 3, 2015, the County Board approved to write off Larson's Appliance RCEDA loan in the amount of \$21,579 as an uncollectable debt due to bankruptcy. The County has four outstanding RCEDA loans as of December 31, 2015.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

2. Loans Receivable (Continued)

Loan activity for the year ended December 31, 2015, was as follows:

| | Beginning Balance | Increase | Decrease | Ending Balance |
|----------------------------|----------------------|---------------------|------------------|---------------------|
| RRRSWA Loan | \$ 1,000,000 | \$ 1,600,000 | \$ - | \$ 2,600,000 |
| RCEDA Loans | | | | |
| Red Rock Chiropractic #1 | 3,098 | - | 2,854 | 244 |
| Red Rock Chiropractic #2 | 19,185 | - | 6,897 | 12,288 |
| Nelson Martin Funeral Home | 12,806 | - | 10,931 | 1,875 |
| Knott's Corner | 43,170 | - | 6,765 | 36,405 |
| Free Source | 14,995 | - | 14,995 | - |
| Larson's Appliance | 21,579 | - | 21,579 | - |
| Total | \$ 1,114,833 | \$ 1,600,000 | \$ 64,021 | \$ 2,650,812 |

3. Capital Assets

Capital asset activity for the year ended December 31, 2015, was as follows:

| | Beginning Balance | Increase | Decrease | Ending Balance |
|--|-----------------------|---------------------|---------------------|-----------------------|
| Capital assets not depreciated | | | | |
| Land | \$ 466,485 | \$ - | \$ - | \$ 466,485 |
| Right-of-way | 1,591,867 | 5,732 | - | 1,597,599 |
| Construction in progress | 5,794,534 | 3,617,682 | 5,200,899 | 4,211,317 |
| Total capital assets not depreciated | \$ 7,852,886 | \$ 3,623,414 | \$ 5,200,899 | \$ 6,275,401 |
| Capital assets depreciated | | | | |
| Buildings | \$ 9,793,161 | \$ 5,245,328 | \$ - | \$ 15,038,489 |
| Improvements other than buildings | 542,842 | - | - | 542,842 |
| Machinery and equipment | 8,881,165 | 635,784 | 378,795 | 9,138,154 |
| Infrastructure | 88,259,427 | 600,343 | - | 88,859,770 |
| Total capital assets depreciated | \$ 107,476,595 | \$ 6,481,455 | \$ 378,795 | \$ 113,579,255 |
| Less: accumulated depreciation for | | | | |
| Buildings | \$ 4,304,169 | \$ 218,692 | \$ - | \$ 4,522,861 |
| Improvements other than buildings | 154,838 | 26,036 | - | 180,874 |
| Machinery and equipment | 5,926,993 | 493,239 | 317,159 | 6,103,073 |
| Infrastructure | 24,065,893 | 1,785,722 | - | 25,851,615 |
| Total accumulated depreciation | \$ 34,451,893 | \$ 2,523,689 | \$ 317,159 | \$ 36,658,423 |
| Total capital assets depreciated, net | \$ 73,024,702 | \$ 3,957,766 | \$ 61,636 | \$ 76,920,832 |
| Capital Assets, Net | \$ 80,877,588 | \$ 7,581,180 | \$ 5,262,535 | \$ 83,196,233 |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

3. Capital Assets (Continued)

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

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

| | | |
|---|----|-----------|
| General government | \$ | 314,597 |
| Public safety | | 247,822 |
| Highways and streets, including depreciation of infrastructure assets | | 1,905,874 |
| Sanitation | | 20,100 |
| Culture and recreation | | 6,773 |
| Conservation of natural resources | | 28,523 |
| Total Depreciation Expense - Governmental Activities | \$ | 2,523,689 |

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

The composition of interfund balances as of December 31, 2015, is as follows:

| Receivable Fund | Payable Fund | Amount |
|--------------------------------------|----------------------------|--------|
| Road and Bridge Special Revenue Fund | General Fund | \$ 803 |
| | Ditch Special Revenue Fund | 25 |
| Total Due To/From Other Funds | | \$ 828 |

The outstanding balances between funds result from the time lag between the dates the interfund goods and services were provided and reimbursable expenditures occurred, and when transactions are recorded in the accounting system and when the funds are repaid. All balances are expected to be liquidated in the subsequent year.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

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

2. Advances To/From Other Funds

The composition of interfund balances as of December 31, 2015, is as follows:

| Receivable Fund | Payable Fund | Amount |
|----------------------------|---|--------|
| Ditch Special Revenue Fund | Springdale Watershed Special Revenue Fund | \$ 243 |

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

C. Liabilities and Deferred Inflows of Resources

1. Construction and Other Commitments

The County has active construction projects and other commitments as of December 31, 2015. The projects and commitments include the following:

| | Spent-to-Date | Remaining Commitment |
|------------|---------------|----------------------|
| Pictometry | \$ 86,743 | \$ 113,761 |

The remaining commitment for highway projects are state-funded and, therefore, are not obligations of the County at December 31, 2015.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

2. Unearned Revenues/Deferred Inflows of Resources

Unearned revenues and deferred inflows of resources consist of special assessments, taxes, state grants, and interest not collected soon enough after year-end to pay liabilities of the current period, and other receivables received but not yet earned. Unearned revenues and deferred inflows of resources at December 31, 2015, are summarized below by fund:

| | Special Assessments | Taxes | Grants | Interest | Other | Total |
|-------------------------------|------------------------|------------------|---------------------|------------------|-----------------|---------------------|
| Major governmental funds | | | | | | |
| General | \$ 177,346 | \$ 28,830 | \$ - | \$ 10,133 | \$ 4,896 | \$ 221,205 |
| Road and Bridge | - | 7,424 | 2,008,264 | - | - | 2,015,688 |
| Human Services | - | 10,467 | - | - | - | 10,467 |
| Solid Waste | 35,448 | - | - | - | - | 35,448 |
| Ditch | 229,254 | - | - | 859 | - | 230,113 |
| Springdale Watershed | - | 231 | - | - | - | 231 |
| Debt Service | - | 3,000 | - | - | - | 3,000 |
| Total | <u>\$ 442,048</u> | <u>\$ 49,952</u> | <u>\$ 2,008,264</u> | <u>\$ 10,992</u> | <u>\$ 4,896</u> | <u>\$ 2,516,152</u> |
| Liability | | | | | | |
| Unearned revenue | \$ - | \$ - | \$ - | \$ - | \$ 4,896 | \$ 4,896 |
| Deferred inflows of resources | | | | | | |
| Unavailable revenue | 442,048 | 49,952 | 2,008,264 | 10,992 | - | 2,511,256 |
| Total | <u>\$ 442,048</u> | <u>\$ 49,952</u> | <u>\$ 2,008,264</u> | <u>\$ 10,992</u> | <u>\$ 4,896</u> | <u>\$ 2,516,152</u> |

3. Long-Term Debt

Loans Payable

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

3. Long-Term Debt

Loans Payable (Continued)

| Type of Indebtedness | Final Maturity | Installment Amount | Interest Rate (%) | Original Issue Amount | Outstanding Balance December 31, 2015 |
|--|-------------------|-----------------------|-------------------------|-----------------------------|--|
| Clean water loans | | | | | |
| Cottonwood River Restoration/ Continuation | 2017 | \$ 15,172 | 2.00 | \$ 434,219 | \$ 33,444 |
| Redwood River Watershed Project Continuation | 2017 | 6,326 | 2.00 | 127,675 | 24,684 |
| Cottonwood River Watershed Phosphorus TMDL | 2022 | 2,033 | 2.00 | 98,199 | 26,433 |
| Middle Minnesota Continuation | 2024 | 746 | 2.00 | 13,469 | 12,240 |
| Redwood-Cottonwood River Septic Loan Program 2013 | - | - | - | 310,000 | 61,546 |
| Middle Minnesota Watershed SSTS Loan Project | - | - | - | 200,000 | 29,562 |
| Total | | | | | <u>\$ 187,909</u> |

The Redwood-Cottonwood River Septic and Middle Minnesota Watershed SSTS water loans do not have a fixed amortization schedule.

Bonds and Certificates of Indebtedness

In 2008, Redwood County issued a Capital Improvement Bond (Series 2008A) for \$3,920,000 to finance the renovation of the Government Center and remodeling of the Courthouse. In 2013, Redwood County issued a Law Enforcement Center (LEC) Bond (Series 2013A) for \$3,375,000 to finance the renovation and remodel of the LEC. Also in 2013, Redwood County issued a Recycling Facility Bond for \$2,040,000 (Series 2013A) for both Redwood and Renville Counties, with Renville County paying Redwood County for half of the bond. Payments on the 2008 issue and the 2013 LEC issue are made from the Debt Service Fund. Solid waste assessments pay for Redwood County's portion of the Recycling Bond.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

3. Long-Term Debt

Bonds and Certificates of Indebtedness (Continued)

| Type of Indebtedness | Final Maturity | Installment Amount | Interest Rate (%) | Original Issue Amount | Outstanding Balance December 31, 2015 |
|---|-------------------|--------------------------|-------------------------|-----------------------------|--|
| 2013 General Obligation Law Enforcement Center Bond, Series 2013A | 2028 | \$170,000 - \$265,000 | 2.00 - 3.20 | \$ 3,375,000 | \$ 3,005,000 |
| Add: unamortized premium | | | | | 33,465 |
| Total Law Enforcement Center Bond | | | | | \$ 3,038,465 |
| 2013 General Obligation Recycling Facility Bond, Series 2013A | 2028 | \$70,000 - \$80,000 | 2.00 - 3.20 | \$ 2,040,000 | \$ 1,780,000 |
| Add: unamortized premium | | | | | 19,990 |
| Total Recycling Facility Bond | | | | | \$ 1,799,990 |
| 2008 General Obligation Improvement Bond, Series 2008A | 2024 | \$170,000 - \$355,000 | 3.00 - 4.50 | \$ 3,920,000 | \$ 2,655,000 |
| Less: unamortized discount | | | | | (15,261) |
| Total Improvement Bond | | | | | \$ 2,639,739 |
| Total General Obligation Bonds, Net | | | | | \$ 7,478,194 |

4. Debt Service Requirements

Debt service requirements at December 31, 2015, were as follows:

| Year Ending December 31 | General Obligation Bonds | |
|----------------------------|--------------------------|--------------|
| | Principal | Interest |
| 2016 | \$ 565,000 | \$ 225,807 |
| 2017 | 580,000 | 210,103 |
| 2018 | 595,000 | 193,408 |
| 2019 | 625,000 | 175,617 |
| 2020 | 645,000 | 156,732 |
| 2021 - 2025 | 3,180,000 | 453,059 |
| 2026 - 2028 | 1,250,000 | 60,640 |
| Total | \$ 7,440,000 | \$ 1,475,366 |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

4. Debt Service Requirements (Continued)

| Year Ending December 31 | Loans Payable | |
|----------------------------|---------------|----------|
| | Principal | Interest |
| 2016 | \$ 46,852 | \$ 1,703 |
| 2017 | 20,990 | 876 |
| 2018 | 5,004 | 554 |
| 2019 | 5,105 | 454 |
| 2020 | 5,207 | 351 |
| 2021 - 2024 | 13,643 | 459 |
| Total | \$ 96,801 | \$ 4,397 |

The clean water loans of \$61,546 for the Redwood-Cottonwood River Septic and \$29,562 for the Middle Minnesota Watershed SSTS are not included in the debt service requirements because fixed repayment schedules are not available.

5. Capital Leases

The County has entered into lease agreements as lessee for financing the acquisition of squad cars for the Sheriff's Department, copier leases for various departments, and a postage machine. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. All capital lease payments are paid from the General Fund.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

5. Capital Leases (Continued)

Capital leases consist of the following at December 31, 2015:

| Lease | Final Maturity | Installments | Payment Amount | Original Issue Amount | Outstanding Balance December 31, 2015 |
|-------------------------------|-------------------|--------------|-------------------|-----------------------------|--|
| 2012 Crown Victoria | 2016 | Monthly | \$ 659 | \$ 33,723 | \$ 3,857 |
| 2013 Ford Interceptor Utility | 2017 | Monthly | 662 | 35,350 | 8,124 |
| 2013 Ford Interceptor Sedan | 2017 | Monthly | 601 | 32,433 | 7,431 |
| 2013 Ford Interceptor Utility | 2017 | Monthly | 562 | 31,261 | 10,572 |
| 2013 Chevrolet Tahoe | 2017 | Monthly | 749 | 34,538 | 10,549 |
| 2014 Ford Interceptor | 2018 | Monthly | 568 | 31,968 | 15,604 |
| 2015 Ford Interceptor | 2019 | Monthly | 567 | 31,355 | 22,423 |
| Administration Sharp copier | 2019 | Monthly | 333 | 10,687 | 8,519 |
| Sheriff Sharp copier | 2019 | Monthly | 195 | 9,066 | 6,366 |
| License Center copier | 2017 | Monthly | 93 | 3,000 | 1,452 |
| Attorney copier | 2017 | Monthly | 163 | 4,693 | 2,343 |
| Extension copier | 2019 | Monthly | 89 | 4,495 | 3,068 |
| A/T Neopost postage machine | 2018 | Quarterly | 455 | 5,987 | 3,821 |
| Total Capital Leases | | | | | <u>\$ 104,129</u> |

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2015, were as follows:

| Year Ending December 31 | Governmental Activities |
|---|----------------------------|
| 2016 | \$ 60,752 |
| 2017 | 32,176 |
| 2018 | 17,698 |
| 2019 | 4,120 |
| Total minimum lease payments | <u>\$ 114,746</u> |
| Less: amount representing interest | <u>(10,617)</u> |
| Present Value of Minimum Lease Payments | <u>\$ 104,129</u> |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2015, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--|----------------------|-------------------|---------------------|---------------------|------------------------|
| Bonds payable | | | | | |
| General obligation bonds | | | | | |
| Series 2008A | \$ 2,890,000 | \$ - | \$ 235,000 | \$ 2,655,000 | \$ 245,000 |
| Series 2013A Law Enforcement Center | 3,205,000 | - | 200,000 | 3,005,000 | 200,000 |
| Series 2013A Recycling Facility | 1,900,000 | - | 120,000 | 1,780,000 | 120,000 |
| Add: unamortized premiums | 57,909 | - | 4,454 | 53,455 | - |
| Less: unamortized discounts | (17,169) | - | (1,908) | (15,261) | - |
| Total bonds payable | \$ 8,035,740 | \$ - | \$ 557,546 | \$ 7,478,194 | \$ 565,000 |
| Clean water loans payable | 177,226 | 56,612 | 45,929 | 187,909 | 46,852 |
| Compensated absences | 784,935 | 565,548 | 553,723 | 796,760 | 103,260 |
| Capital leases | 129,603 | 31,355 | 56,829 | 104,129 | 54,236 |
| Total Long-Term Liabilities | \$ 9,127,504 | \$ 653,515 | \$ 1,214,027 | \$ 8,566,992 | \$ 769,348 |

For the governmental activities, compensated absences are liquidated by the General Fund, the Road and Bridge Special Revenue Fund, and the Ditch Special Revenue Fund.

D. Fund Balances

The summary of fund balance classifications is as follows:

| | General | Special Revenue | | | | | Debt Service | Total |
|---------------------------|---------------------|--------------------|-------------------|---------------------|-------------|-------------------------|---------------------|-------|
| | | Road and Bridge | Human Services | Solid Waste | Ditch | Springdale Watershed | | |
| Nonspendable | | | | | | | | |
| Inventories | \$ - | \$ 151,965 | \$ - | \$ - | \$ - | \$ - | \$ 151,965 | |
| Loans receivable | 1,100,812 | - | - | 1,550,000 | - | - | 2,650,812 | |
| Missing heirs | 1,552 | - | - | - | - | - | 1,552 | |
| Prepaid items | 20,004 | 6,924 | - | - | - | - | 26,928 | |
| Total nonspendable | \$ 1,122,368 | \$ 158,889 | \$ - | \$ 1,550,000 | \$ - | \$ - | \$ 2,831,257 | |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes on All Funds

D. Fund Balances (Continued)

| | Special Revenue | | | | | | | Total |
|---|----------------------|---------------------|-------------------|---------------------|---------------------|----------------------|---------------------|----------------------|
| | General | Road and Bridge | Human Services | Solid Waste | Ditch | Springdale Watershed | Debt Service | |
| Restricted | | | | | | | | |
| Attorney's forfeited property | \$ 21,258 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 21,258 |
| Broadband grant study | 10,855 | - | - | - | - | - | - | 10,855 |
| Child advocacy center contribution | 94 | - | - | - | - | - | - | 94 |
| Computer training lab Grant | 1,737 | - | - | - | - | - | - | 1,737 |
| Debt service | - | - | - | - | - | - | 1,016,032 | 1,016,032 |
| Ditch maintenance, repair, and other | - | - | - | - | 1,627,547 | - | - | 1,627,547 |
| Enhanced 911 | 253,412 | - | - | - | - | - | - | 253,412 |
| Gun permit fees | 67,162 | - | - | - | - | - | - | 67,162 |
| Highway allotments | - | 1,487,839 | - | - | - | - | - | 1,487,839 |
| Invasive species | 30,347 | - | - | - | - | - | - | 30,347 |
| Law library | 40,327 | - | - | - | - | - | - | 40,327 |
| Recorder's compliance | 79,518 | - | - | - | - | - | - | 79,518 |
| Recorder's technology fund | 145,095 | - | - | - | - | - | - | 145,095 |
| Septic system grant | 25,046 | - | - | - | - | - | - | 25,046 |
| Septic/sewer loans | 10,562 | - | - | - | - | - | - | 10,562 |
| Sheriff's contingency | 9,046 | - | - | - | - | - | - | 9,046 |
| Sheriff's DWI assessment | 15,877 | - | - | - | - | - | - | 15,877 |
| Sheriff's forfeited property | 26,038 | - | - | - | - | - | - | 26,038 |
| Victim assistance | 11,791 | - | - | - | - | - | - | 11,791 |
| Veteran's service office | 4,615 | - | - | - | - | - | - | 4,615 |
| Waste to energy contribution | - | - | - | 45,000 | - | - | - | 45,000 |
| Total restricted | \$ 752,780 | \$ 1,487,839 | \$ - | \$ 45,000 | \$ 1,627,547 | \$ - | \$ 1,016,032 | \$ 4,929,198 |
| Committed | | | | | | | | |
| Pictometry contract | \$ 113,761 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 113,761 |
| RCEDA revolving loan 2008 | 185,443 | - | - | - | - | - | - | 185,443 |
| RCEDA revolving loan 2011 | 125,010 | - | - | - | - | - | - | 125,010 |
| Retiree health insurance | 3,667 | - | - | - | - | - | - | 3,667 |
| Sheriff canteen | 16,713 | - | - | - | - | - | - | 16,713 |
| Total committed | \$ 444,594 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 444,594 |
| Assigned | | | | | | | | |
| AS400 computer | \$ 20,947 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 20,947 |
| Assessor tax court | 70,000 | - | - | - | - | - | - | 70,000 |
| Child advocacy center grant match | 5,000 | - | - | - | - | - | - | 5,000 |
| Compensated absences | 526,670 | 261,311 | - | - | 8,779 | - | - | 796,760 |
| Comprehensive environment | 3,000 | - | - | - | - | - | - | 3,000 |
| Courthouse car | 15,000 | - | - | - | - | - | - | 15,000 |
| Election | 127,518 | - | - | - | - | - | - | 127,518 |
| Employee flu shots | 2,000 | - | - | - | - | - | - | 2,000 |
| Flood coverage | 740 | - | - | - | - | - | - | 740 |
| Forfeited tax | 121,508 | - | - | - | - | - | - | 121,508 |
| Future ditch loans | - | - | - | - | 924,771 | - | - | 924,771 |
| Grand jury | 74,787 | - | - | - | - | - | - | 74,787 |
| Highways and streets | - | 2,719,403 | - | - | - | - | - | 2,719,403 |
| Human services | - | - | 722,141 | - | - | - | - | 722,141 |
| L.E. dog fund | 2,006 | - | - | - | - | - | - | 2,006 |
| Maintenance equipment | 20,000 | - | - | - | - | - | - | 20,000 |
| OPEB actuary | 3,500 | - | - | - | - | - | - | 3,500 |
| Park improvements | 40,000 | - | - | - | - | - | - | 40,000 |
| Postemployment benefits | 500,000 | 19,350 | - | - | - | - | - | 519,350 |
| Public health | 1,304,698 | - | - | - | - | - | - | 1,304,698 |
| Safety committee | 8,502 | - | - | - | - | - | - | 8,502 |
| Sand creek staff training | 3,000 | - | - | - | - | - | - | 3,000 |
| Solid waste | - | - | - | 295,777 | - | - | - | 295,777 |
| Staff development | 5,750 | - | - | - | - | - | - | 5,750 |
| Veteran's cemetery | 1,000,000 | - | - | - | - | - | - | 1,000,000 |
| VSO van purchase | 15,632 | - | - | - | - | - | - | 15,632 |
| Workers' compensation/property casualty insurance | 546,807 | - | - | - | - | - | - | 546,807 |
| Total assigned | \$ 4,417,065 | \$ 3,000,064 | \$ 722,141 | \$ 295,777 | \$ 933,550 | \$ - | \$ - | \$ 9,368,597 |
| Unassigned | \$ 5,536,147 | \$ - | \$ - | \$ - | \$ - | \$ (222) | \$ - | \$ 5,535,925 |
| Total Fund Balances | \$ 12,272,954 | \$ 4,646,792 | \$ 722,141 | \$ 1,890,777 | \$ 2,561,097 | \$ (222) | \$ 1,016,032 | \$ 23,109,571 |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. Plan Description

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

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

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

Local government employees of a county-administered facility who are responsible for the direct security, custody, and control of the county correctional facility and its inmates are covered by the Public Employees Correctional Fund. For members hired after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

2. Benefits Provided

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

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

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

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

3. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in 2015. Public Employees Police and Fire Fund members were required to contribute 10.80 percent of their annual covered salary in 2015. Public Employees Correctional Fund members were required to contribute 5.83 percent of their annual covered salary in 2015.

In 2015, the County was required to contribute the following percentages of annual covered salary:

| | |
|---------------------------------------|--------|
| General Employees Retirement Fund | |
| Basic Plan members | 11.78% |
| Coordinated Plan members | 7.50 |
| Public Employees Police and Fire Fund | 16.20 |
| Public Employees Correctional Fund | 8.75 |

The General Employees Retirement Fund Coordinated Plan member and employer contribution rates each reflect a 0.25 percent increase from 2014. The Public Employees Police and Fire Fund member and employer contribution rates increased 0.60 percent and 0.90 percent, respectively, from 2014.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

3. Contributions (Continued)

The County's contributions for the year ended December 31, 2015, to the pension plans were:

| | |
|---------------------------------------|------------|
| General Employees Retirement Fund | \$ 284,372 |
| Public Employees Police and Fire Fund | 122,845 |
| Public Employees Correctional Fund | 50,141 |

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

4. Pension Costs

General Employees Retirement Fund

At December 31, 2015, the County reported a liability of \$3,187,249 for its proportionate share of the General Employees Retirement Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.0615 percent. It was 0.0659 percent measured as of June 30, 2014. The County recognized pension expense of \$372,085 for its proportionate share of the General Employees Retirement Fund's pension expense.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Fund (Continued)

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual economic experience | \$ - | \$ 160,692 |
| Difference between projected and actual investment earnings | 301,722 | - |
| Changes in proportion | - | 155,017 |
| Contributions paid to PERA subsequent to the measurement date | 144,824 | - |
| Total | \$ 446,546 | \$ 315,709 |

The \$144,824 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended December 31 | Pension Expense Amount |
|---------------------------|------------------------------|
| 2016 | \$ (29,806) |
| 2017 | (29,806) |
| 2018 | (29,806) |
| 2019 | 75,431 |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Police and Fire Fund

At December 31, 2015, the County reported a liability of \$886,263 for its proportionate share of the Public Employees Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.078 percent. It was 0.078 percent measured as of June 30, 2014. The County recognized pension expense of \$152,797 for its proportionate share of the Public Employees Police and Fire Fund's pension expense.

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

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

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual economic experience | \$ - | \$ 143,723 |
| Difference between projected and actual investment earnings | 154,417 | - |
| Contributions paid to PERA subsequent to the measurement date | <u>63,506</u> | <u>-</u> |
| Total | <u>\$ 217,923</u> | <u>\$ 143,723</u> |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Fund (Continued)

The \$63,506 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ended December 31</u> | <u>Pension Expense Amount</u> |
|-----------------------------------|---------------------------------------|
| 2016 | \$ 9,860 |
| 2017 | 9,860 |
| 2018 | 9,860 |
| 2019 | 9,860 |
| 2020 | (28,746) |

Public Employees Correctional Fund

At December 31, 2015, the County reported a liability of \$44,834 for its proportionate share of the Public Employees Correctional Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.29 percent. It was 0.28 percent measured as of June 30, 2014. The County recognized pension expense of \$49,296 for its proportionate share of the Public Employees Correctional Fund's pension expense.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Correctional Fund (Continued)

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual economic experience | \$ - | \$ 17,165 |
| Difference between projected and actual investment earnings | 37,372 | - |
| Changes in proportion | 566 | - |
| Contributions paid to PERA subsequent to the measurement date | 26,293 | - |
| Total | \$ 64,231 | \$ 17,165 |

The \$26,293 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended December 31 | Pension Expense Amount |
|---------------------------|------------------------------|
| 2016 | \$ 3,810 |
| 2017 | 3,810 |
| 2018 | 3,810 |
| 2019 | 9,343 |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2015, was \$574,178.

5. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the individual entry age normal actuarial cost method and the following additional actuarial assumptions:

| | |
|------------------------------|-----------------------|
| Inflation | 2.75 percent per year |
| Active member payroll growth | 3.50 percent per year |
| Investment rate of return | 7.90 percent |

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Fund and the Public Employees Police and Fire Fund, cost of living benefit increases for retirees are assumed to be 1.0 percent effective every January 1 through 2035 and 2037, respectively, and 2.5 percent thereafter. Cost of living benefit increases for retirees are assumed to be 2.5 percent for all years for the Public Employees Correctional Fund.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Fund was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. The experience study for the Public Employees Police and Fire Fund was for the period July 1, 2004, through June 30, 2009. The experience study for the Public Employees Correctional Fund was for the period July 1, 2006, through June 30, 2011.

In 2015, an updated experience study was done for PERA's General Employees Retirement Fund for the six-year period ending June 30, 2014, which would result in a larger pension liability. However, PERA will not implement the changes in assumptions until its June 30, 2016, estimate of pension liability.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments is 7.9 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

6. Discount Rate

The discount rate used to measure the total pension liability was 7.9 percent. The discount rate did not change since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans (Continued)

7. Pension Liability Sensitivity

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

| | 1% Decrease in Discount Rate (6.9%) | Discount Rate (7.9%) | 1% Increase in Discount Rate (8.9%) |
|--|---|-------------------------|---|
| Proportionate share of the General Employees Retirement Fund net pension liability | \$ 5,011,489 | \$ 3,187,249 | \$ 1,680,708 |
| Public Employees Police and Fire Fund net pension liability | 1,727,335 | 886,263 | 191,390 |
| Public Employees Correctional Fund net pension liability (asset) | 312,231 | 44,834 | (169,192) |

8. Pension Plan Fiduciary Net Position

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

B. Defined Contribution Plan

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

B. Defined Contribution Plan (Continued)

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

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2015, were:

| | <u>Employee</u> | <u>Employer</u> |
|-------------------------------|-----------------|-----------------|
| Contribution amount | \$ 5,404 | \$ 5,404 |
| Percentage of covered payroll | 5% | 5% |

C. Other Postemployment Benefits (OPEB)

Plan Description

Redwood County pays the health insurance for qualified retired employees and elected officials. Employees who retire between age 55 and 65 with 25 years of public service, and with at least 10 years of service with Redwood County, qualify for health insurance benefits. Elected officials qualify if they serve a minimum of 2 years as an elected Redwood County official. The elected official and his or her surviving spouse and dependents will receive one year of paid or partially paid medical insurance for every 2 years of service to Redwood County. Additional years, not a multiple of 2, are prorated. A maximum of six years of paid insurance is available to elected officials. On November 30, 2010, the Board took action to change the health insurance benefits for elected officials. For those elected officials taking office on or before January 4, 2011, the following provisions apply as above, except the County will not exceed the actual cost of the County's \$500 deductible plan for the "Retiree and Spouse, both

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Plan Description (Continued)

65 years of age or over” rate. For those elected officials taking office after January 4, 2011, the following provisions apply. The elected official who retires between age 55 and 65, with at least 10 years of service with Redwood County, qualifies for health insurance benefits.

Funding Policy

The amount paid by the County will not exceed the amount that the County contributes to employees pursuant to policy 6.16, as may be amended from time to time by the County Board. For retired employees, the County rates are based on the County’s group health policy rates in effect at the time of retirement and are a fixed amount until discontinued at age 65 and after a maximum of six years for elected officials. As of year-end December 31, 2015, the County has five eligible participants (three elected officials and two employees). The County finances the plan on a pay-as-you-go basis. During 2015, the County expended \$57,845 for these benefits.

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

Annual OPEB Cost and Net OPEB Obligation

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the plan.

| | | |
|---|----|-----------------------|
| ARC | \$ | 96,542 |
| Interest on net OPEB obligation | | 9,058 |
| Adjustment to ARC | | <u>(15,404)</u> |
| Annual OPEB cost (expense) | \$ | 90,196 |
| Contributions made during the year | | <u>(53,542)</u> |
| Increase in net OPEB obligation | \$ | 36,654 |
| Net OPEB Obligation - Beginning of Year | | <u>301,919</u> |
| Net OPEB Obligation - End of Year | \$ | <u><u>338,573</u></u> |

The County's annual OPEB cost; the percentage of annual OPEB cost contributed to the plan; and the net OPEB obligation for the years ended December 31, 2013, 2014, and 2015, were as follows:

| <u>Fiscal Year Ended</u> | <u>Annual OPEB Cost</u> | <u>Annual Employer Contribution</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|--------------------------|-----------------------------|---|---|--------------------------------|
| December 31, 2013 | \$ 101,970 | \$ 91,460 | 89.7% | \$ 282,771 |
| December 31, 2014 | 90,598 | 71,450 | 78.9 | 301,919 |
| December 31, 2015 | 90,196 | 53,542 | 59.4 | 338,573 |

Funded Status and Funding Progress

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions

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

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

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

The annual health care cost trend has been revised to an initial rate of 7.0 percent for fiscal year ending December 31, 2016, decreasing by 0.5 percent annually to an ultimate rate of 4.5 percent. A 3.5 percent per year inflation rate is included. The UAAL is being amortized over 30 years using a 4.5 percent interest rate discount factor. The remaining amortization period at December 31, 2015, was 22 years.

REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA

5. Summary of Significant Contingencies and Other Items

A. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$490,000 per claim in 2015 and \$500,000 in 2016. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining, and the County pays an annual premium to cover current and future losses. MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

The County established a limited risk management program for health coverage in 2014. Premiums are paid into the Self-Insurance Internal Service Fund by all other funds and are available to pay claims, claim reserves, and administrative costs of the program. The County has retained risk up to a \$50,000 stop-loss per person insured (employee and eligible dependent) per year (\$1,000,000 aggregate) for the health plan. Liabilities of the Self-Insurance Internal Service Fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

The December 31, 2015, liability is determined based on detailed reports received by the County from the third-party administrator for claims incurred, adjusted, and paid through February 29, 2016. Changes in the balances of claims liabilities during the year are as follows:

| | |
|----------------------------------|--------------------|
| Unpaid claims, January 1, 2015 | \$ 57,144 |
| Incurred claims | 1,013,079 |
| Claims payments | <u>(1,011,372)</u> |
| Unpaid Claims, December 31, 2015 | <u>\$ 58,851</u> |

B. Contingent Liabilities

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

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Contingent Liabilities (Continued)

Lincoln-Pipestone Rural Water System

At December 31, 2015, the Lincoln-Pipestone Rural Water System had \$32,402,123 of general obligation bonds and other loans outstanding through 2052. The bonds were issued by some of the participating counties in the Rural Water System to finance the construction of water system expansions and improvements.

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

C. Joint Ventures

Lincoln-Pipestone Rural Water System

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Lincoln-Pipestone Rural Water System (Continued)

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

Bonds were issued by Lincoln, Nobles, and Yellow Medicine Counties to finance the construction of the Rural Water System. Costs assessed to municipalities and special assessments levied against benefited properties pay approximately 85 percent of the amount necessary to retire principal and interest on the bonds. The remainder of the funds necessary to retire the outstanding bonds and interest will be provided by appropriations from the Lincoln-Pipestone Rural Water System. Outstanding obligations at December 31, 2015, were \$32,402,123.

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

Red Rock Rural Water System

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

The governing body is composed of nine members appointed to three-year terms by the District Court. Each county is responsible for levying and collecting the special assessments from the benefited properties within that county. A bond issue and notes payable are shown as long-term debt in the financial statements of the Red Rock Rural Water System.

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Southwest Minnesota Regional Emergency Communications Joint Powers Board

As of August 23, 2013, the Southwest Minnesota Regional Radio Board changed its name to the Southwest Minnesota Regional Emergency Communications Joint Powers Board. The Southwest Minnesota Regional Emergency Communications Joint Powers Board was established April 22, 2008, between Redwood County, the Cities of Marshall and Worthington, and 12 other counties under the authority of Minn. Stat. §§ 471.59 and 403.39. The purpose of the agreement is to formulate a regional radio board to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER).

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

Financing is provided by the appropriations from member parties and by state and federal grants. During 2015, Redwood County did not contribute to the Joint Powers Board.

Redwood/Renville Regional Solid Waste Authority

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

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Redwood/Renville Regional Solid Waste Authority (Continued)

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

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

On November 17, 2015, Redwood County approved to loan RRRSWA \$1,600,000, with an interest rate of two percent. Principal payments will begin in 2017. In 2015, Renville County loaned RRRSWA \$1,600,000.

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

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

Southwest Health and Human Services

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwest Health and Human Services (Continued)

In 2011, Rock County petitioned to join SWHHS. Rock County's health and human services functions were assumed by SWHHS as of January 1, 2012. In 2012, Redwood County and Pipestone County petitioned to join SWHHS. Redwood County's health and human services functions and Pipestone County's human service function joined SWHHS as of January 1, 2013.

SWHHS is governed by the:

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

Financing is provided by state and federal grants and appropriations from member counties. Redwood County's contribution in 2015 for the human services function was \$2,217,454, and its contribution to the health services function was \$265,295.

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Southwestern Minnesota Adult Mental Health Consortium Board

In November 1997, the Southwestern Minnesota Adult Mental Health Consortium Board was created under the authority of Minn. Stat. § 471.59. Presently, its members include Big Stone, Chippewa, Cottonwood, Jackson, Kandiyohi, Lac qui Parle, McLeod, Meeker, Nobles, Renville, Swift, and Yellow Medicine Counties; and Southwest Health and Human Services representing Lincoln, Lyon, Murray, Pipestone, Redwood, and Rock Counties. The Board is headquartered in Windom, Minnesota, where Des Moines Valley Health and Human Services (DVHHS) acts as fiscal host.

The Board shall take actions and enter into such agreements as necessary to plan and develop within the Southwestern Minnesota Adult Mental Health Consortium Board's geographic jurisdiction, a system of care that serves 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.

A complete financial report of the Southwestern Minnesota Adult Mental Health Consortium Board can be obtained by contacting DVHHS at 11 Fourth Street, Windom, Minnesota 56101.

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

Redwood County, in conjunction with Cottonwood, Lincoln, Lyon, Murray, Nobles, and Rock Counties and the Southwest Regional Development Commission, pursuant to Minn. Stat. § 471.59, have formed an agreement to coordinate the delivery of volunteer services to non-profit community service entities and local units of government meeting the guidelines for receiving volunteer services under the authority of the counties. The entity known as Retired and Senior Volunteer Program of Southwest Minnesota (RSVP of Southwest Minnesota) changed its name to A.C.E. of Southwest Minnesota as of January 1, 2014. The Board comprises one voting member from each participating County and one voting member of the A.C.E. of Southwest Minnesota Advisory Council. In 2015, Redwood County made contributions of \$24,089 to the A.C.E. of Southwest Minnesota.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Brown-Lyon-Redwood-Renville Drug Task Force

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

The Task Force is governed by an Advisory Board consisting of one appointed member from each party to the agreement. Financing is provided through contributions of the participating counties, grants, and forfeitures. During 2015, Redwood County paid \$50,264 to the Task Force.

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

Southern Prairie Community Care

As of February 4, 2014, the Southern Prairie Health Purchasing Alliance changed its name to Southern Prairie Community Care. Chippewa, Cottonwood, Jackson, Kandiyohi, Lincoln, Lyon, Murray, Nobles, Redwood, Rock, Swift, and Yellow Medicine Counties entered into a joint powers agreement on June 26, 2012, to establish the Southern Prairie Health Purchasing Alliance pursuant to the provisions of Minn. Stat. § 471.59. Southwest Health and Human Services represents Lincoln, Lyon, Murray, Redwood, and Rock Counties in this agreement. The purpose of the Alliance is to plan, formulate, operate, and govern a rural care delivery system to improve the health and quality of life of the citizens of member counties. The Joint Powers Board is composed of one representative from each county.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Plum Creek Library System

Redwood County, along with 19 cities and 8 other counties participates in the Plum Creek Library System. The Plum Creek Library System was created as a public library service on May 29, 1974, by the act of contracting with various public libraries in its region to provide expanded library service, with the additional purpose of furthering the public interest by providing the potential for extending public library services into areas without such services. The Plum Creek Library System is governed by a board of trustees which consists of two representatives from each county. One is appointed by the County Commissioners, the second from the board of the participating libraries. During 2015, Redwood County provided \$94,967 to the Plum Creek Library System.

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

Southwest Minnesota Private Industry Council, Inc.

The Southwest Minnesota Private Industry Council, Inc. (SW MN PIC), is a private nonprofit corporation which was created through a Joint Powers Agreement on October 1, 1983, and began operations in 1985 under the Job Training Partnership Act (JTPA) authorized by Congress to administer and operate job training programs in a 14-county area of southwestern Minnesota. These counties include Big Stone, Chippewa, Cottonwood, Jackson, Lac qui Parle, Lincoln, Lyon, Murray, Nobles, Pipestone, Redwood, Rock, Swift, and Yellow Medicine.

SW MN PIC is governed by the Chief Elected Official Board which is composed of one representative from each member county. Redwood County provided \$3,100 to this organization in 2015.

Separate financial information can be obtained from the Lyon County Government Center, 607 West Main Street, Marshall, Minnesota 56258.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Southwest Regional Solid Waste Commission

Redwood County has entered into a joint powers agreement with 11 other counties to create and operate the Southwest Regional Solid Waste Commission under the authority of Minn. Stat. § 471.59. The Commission was formed to exercise the County's authority and obligation pursuant to Minn. Stat. chs. 400 and 115A; to provide for the management of solid waste in the respective counties; and provide the greatest public service benefit possible for the entire contiguous 12-county area encompassed by the counties in planning, management, and implementation of methods to deal with solid waste in southwest Minnesota.

The governing board is composed of one Board member from each of the participating counties. Financing of the Commission's solid waste management program is through appropriations from the participating counties, grants and loans from the Minnesota Office of Waste Management, or from the sale of bonds or other obligations secured by revenues of the Commission. Administration and planning costs of the Commission are assessed to the counties on equal shares. The current assessment is \$1,500.

The Commission is headquartered in Ivanhoe, Minnesota, where Lincoln County acts as fiscal host. A complete financial report of the Southwest Regional Solid Waste Commission can be obtained from the Lincoln County Auditor at 319 North Rebecca Street, P. O. Box 29, Ivanhoe, Minnesota 56142.

D. Jointly-Governed Organizations

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

Area II Minnesota River Basin Project

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

Region Five - Southwest Minnesota Homeland Security Emergency Management Organization

The Region Five - Southwest Minnesota Homeland Security Emergency Management Organization was established to provide for regional coordination of planning, training, purchase of equipment, and allocating emergency services and staff in order to better respond to emergencies and natural or other disasters within the region. Control is vested in the Board, which is composed of representatives appointed by each Board of County Commissioners. Redwood County's responsibility does not extend beyond making this appointment.

Redwood-Cottonwood Rivers Control Area

The Redwood-Cottonwood Rivers Control Area (RCRCA) works to improve water quality, reduce erosion, and enhance recreational opportunities by providing education, outreach, monitoring, and technical assistance within the boundaries of the watersheds of the Redwood and Cottonwood Rivers for the participating counties. RCRCA consists of Brown, Cottonwood, Lincoln, Lyon, Murray, Pipestone, Redwood, and Yellow Medicine Counties. During 2015, Redwood County contributed \$24,825 to the RCRCA.

Rural Minnesota Energy Board

The Rural Minnesota Energy Board was established in 2005 under the authority of Minn. Stat. § 471.59. The purpose of the Board is to provide policy guidance on issues surrounding energy development in rural Minnesota. The focus of the Board includes, but is not limited to, renewable energy, wind energy, energy transmission lines, hydrogen energy technology, and bio-diesel and ethanol use. During 2015, Redwood County paid \$1,000 to the Board.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

Southwest Minnesota Public Safety Board

The Southwest Minnesota Public Safety Board was established June 29, 2012, by a joint powers agreement between Lyon, Murray, Nobles, Pipestone, Redwood, and Yellow Medicine Counties, and the Cities of Marshall and Worthington, under authority of Minn. Stat. § 471.59. The purpose of the agreement is to formulate regional and local emergency communications recording and logging services between the parties.

Control is vested in a Joint Powers Board consisting of one County Commissioner or one City Council member for each party to the agreement and the Sheriff or Chief of Police from each party to the agreement. The members representing counties and cities shall be appointed by their respective governing bodies for the membership of that governing body. During the year, Redwood County made payments of \$4,000 to the Southwest Minnesota Public Safety Board.

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REQUIRED SUPPLEMENTARY INFORMATION

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---------------------------------|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 6,129,964 | \$ 6,129,964 | \$ 6,015,490 | \$ (114,474) |
| Other taxes | 9,300 | 9,300 | 11,402 | 2,102 |
| Special assessments | 45,756 | 45,756 | 55,845 | 10,089 |
| Licenses and permits | 57,630 | 57,630 | 57,148 | (482) |
| Intergovernmental | 1,081,739 | 1,081,739 | 1,377,003 | 295,264 |
| Charges for services | 666,293 | 669,689 | 730,746 | 61,057 |
| Gifts and contributions | 14,000 | 14,000 | 11,230 | (2,770) |
| Investment earnings | 38,840 | 38,840 | 125,393 | 86,553 |
| Miscellaneous | 429,393 | 433,430 | 492,134 | 58,704 |
| Total Revenues | \$ 8,472,915 | \$ 8,480,348 | \$ 8,876,391 | \$ 396,043 |
| Expenditures | | | | |
| Current | | | | |
| General government | | | | |
| Commissioners | \$ 247,401 | \$ 247,401 | \$ 230,771 | \$ 16,630 |
| Law library | 9,000 | 9,000 | 5,977 | 3,023 |
| County administration | 435,004 | 435,004 | 330,045 | 104,959 |
| Administrator | 302,618 | 302,618 | 295,953 | 6,665 |
| Auditor-Treasurer | 360,699 | 360,699 | 358,303 | 2,396 |
| License center | 183,821 | 183,821 | 162,926 | 20,895 |
| Assessor | 449,122 | 449,122 | 402,095 | 47,027 |
| Elections | 40,000 | 40,000 | 14,103 | 25,897 |
| Computer | 351,127 | 351,127 | 363,183 | (12,056) |
| Attorney | 466,230 | 469,626 | 446,177 | 23,449 |
| Recorder | 281,752 | 281,752 | 254,829 | 26,923 |
| Buildings and plant | 761,193 | 761,193 | 640,561 | 120,632 |
| Veterans service officer | 181,783 | 181,783 | 194,473 | (12,690) |
| Other general government | - | - | 1,250 | (1,250) |
| Total general government | \$ 4,069,750 | \$ 4,073,146 | \$ 3,700,646 | \$ 372,500 |
| Public safety | | | | |
| Sheriff | \$ 2,767,209 | \$ 2,772,676 | \$ 2,659,144 | \$ 113,532 |
| Coroner | 15,000 | 15,000 | 16,253 | (1,253) |
| E-911 system | 206,000 | 206,000 | 77,016 | 128,984 |
| Probation and parole | 280,836 | 280,836 | 252,459 | 28,377 |
| Restorative justice | 68,793 | 68,793 | 70,421 | (1,628) |
| Sentencing to Service | 70,314 | 70,314 | 46,557 | 23,757 |
| Emergency management | 74,823 | 74,823 | 76,936 | (2,113) |
| Other public safety | 25,600 | 25,600 | 22,475 | 3,125 |
| Total public safety | \$ 3,508,575 | \$ 3,514,042 | \$ 3,221,261 | \$ 292,781 |

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

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|--|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Expenditures | | | | |
| Current (Continued) | | | | |
| Culture and recreation | | | | |
| Museum | \$ 2,000 | \$ 2,000 | \$ 1,911 | \$ 89 |
| Parks | 130,092 | 130,092 | 116,541 | 13,551 |
| Minnesota trails | 87,331 | 87,331 | 93,375 | (6,044) |
| Other | 48,500 | 48,500 | 48,200 | 300 |
| Total culture and recreation | \$ 267,923 | \$ 267,923 | \$ 260,027 | \$ 7,896 |
| Conservation of natural resources | | | | |
| Extension | \$ 103,319 | \$ 103,319 | \$ 87,246 | \$ 16,073 |
| Agricultural inspection | 247,777 | 247,777 | 263,707 | (15,930) |
| Water quality loan program | 25,000 | 25,000 | 64,199 | (39,199) |
| Other | 167,791 | 167,791 | 192,649 | (24,858) |
| Total conservation of natural resources | \$ 543,887 | \$ 543,887 | \$ 607,801 | \$ (63,914) |
| Economic development | | | | |
| Other | \$ 80,003 | \$ 80,003 | \$ 129,167 | \$ (49,164) |
| Intergovernmental | | | | |
| Health | \$ 265,295 | \$ 265,295 | \$ 265,295 | \$ - |
| Library | 94,438 | 94,438 | 94,967 | (529) |
| Total intergovernmental | \$ 359,733 | \$ 359,733 | \$ 360,262 | \$ (529) |
| Debt service | | | | |
| Principal | \$ 44,700 | \$ 44,700 | \$ 102,758 | \$ (58,058) |
| Interest | 2,363 | 2,363 | 13,394 | (11,031) |
| Total debt service | \$ 47,063 | \$ 47,063 | \$ 116,152 | \$ (69,089) |
| Total Expenditures | \$ 8,876,934 | \$ 8,885,797 | \$ 8,395,316 | \$ 490,481 |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

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

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|----------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Excess of Revenues Over (Under) Expenditures | \$ (404,019) | \$ (405,449) | \$ 481,075 | \$ 886,524 |
| Other Financing Sources (Uses) | | | | |
| Capital leases | \$ - | \$ - | \$ 31,355 | \$ 31,355 |
| Loans issued | 25,000 | 25,000 | 54,730 | 29,730 |
| Total Other Financing Sources (Uses) | \$ 25,000 | \$ 25,000 | \$ 86,085 | \$ 61,085 |
| Net Change in Fund Balance | \$ (379,019) | \$ (380,449) | \$ 567,160 | \$ 947,609 |
| Fund Balance - January 1 | 11,705,794 | 11,705,794 | 11,705,794 | - |
| Fund Balance - December 31 | \$ 11,326,775 | \$ 11,325,345 | \$ 12,272,954 | \$ 947,609 |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 1,745,178 | \$ 1,745,178 | \$ 1,714,938 | \$ (30,240) |
| Intergovernmental | 4,649,822 | 4,649,822 | 7,106,512 | 2,456,690 |
| Charges for services | 2,000 | 2,000 | 35,862 | 33,862 |
| Investment earnings | 2,000 | 2,000 | 3,033 | 1,033 |
| Miscellaneous | 45,000 | 45,000 | 140,783 | 95,783 |
| Total Revenues | \$ 6,444,000 | \$ 6,444,000 | \$ 9,001,128 | \$ 2,557,128 |
| Expenditures | | | | |
| Current | | | | |
| Highways and streets | | | | |
| Administration | \$ 512,000 | \$ 512,000 | \$ 437,846 | \$ 74,154 |
| Maintenance | 2,106,000 | 2,106,000 | 2,160,192 | (54,192) |
| Construction | 3,000,000 | 3,000,000 | 4,794,535 | (1,794,535) |
| Equipment and maintenance shops | 756,000 | 756,000 | 651,234 | 104,766 |
| Total highways and streets | \$ 6,374,000 | \$ 6,374,000 | \$ 8,043,807 | \$ (1,669,807) |
| Intergovernmental | | | | |
| Highways and streets | 400,000 | 400,000 | 516,915 | (116,915) |
| Total Expenditures | \$ 6,774,000 | \$ 6,774,000 | \$ 8,560,722 | \$ (1,786,722) |
| Net Change in Fund Balance | \$ (330,000) | \$ (330,000) | \$ 440,406 | \$ 770,406 |
| Fund Balance - January 1 | 4,243,066 | 4,243,066 | 4,243,066 | - |
| Increase (decrease) in inventories | - | - | (36,680) | (36,680) |
| Fund Balance - December 31 | \$ 3,913,066 | \$ 3,913,066 | \$ 4,646,792 | \$ 733,726 |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|-----------------------------------|------------------------------|------------------------------|------------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 2,157,494 | \$ 2,157,494 | \$ 2,121,236 | \$ (36,258) |
| Intergovernmental | <u>59,960</u> | <u>59,960</u> | <u>99,296</u> | <u>39,336</u> |
| Total Revenues | \$ 2,217,454 | \$ 2,217,454 | \$ 2,220,532 | \$ 3,078 |
| Expenditures | | | | |
| Intergovernmental | | | | |
| Human services | <u>2,217,454</u> | <u>2,217,454</u> | <u>2,217,454</u> | <u>-</u> |
| Net Change in Fund Balance | \$ - | \$ - | \$ 3,078 | \$ 3,078 |
| Fund Balance - January 1 | <u>719,063</u> | <u>719,063</u> | <u>719,063</u> | <u>-</u> |
| Fund Balance - December 31 | <u><u>719,063</u></u> | <u><u>719,063</u></u> | <u><u>722,141</u></u> | <u><u>3,078</u></u> |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|-----------------------------------|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Special assessments | \$ 364,400 | \$ 364,400 | \$ 609,327 | \$ 244,927 |
| Licenses and permits | 850 | 850 | - | (850) |
| Intergovernmental | 71,655 | 71,655 | 237,226 | 165,571 |
| Investment earnings | 600 | 600 | 20,000 | 19,400 |
| Miscellaneous | 282,000 | 282,000 | 207,318 | (74,682) |
| Total Revenues | \$ 719,505 | \$ 719,505 | \$ 1,073,871 | \$ 354,366 |
| Expenditures | | | | |
| Current | | | | |
| Sanitation | | | | |
| Solid waste | \$ 339,093 | \$ 339,093 | \$ 310,526 | \$ 28,567 |
| Recycling | 437,000 | 437,000 | 232,832 | 204,168 |
| Hazardous waste | 10,000 | 10,000 | 5,160 | 4,840 |
| Total sanitation | \$ 786,093 | \$ 786,093 | \$ 548,518 | \$ 237,575 |
| Intergovernmental | | | | |
| Solid waste | \$ - | \$ - | \$ 83,508 | \$ (83,508) |
| Debt service | | | | |
| Principal | \$ 60,000 | \$ 60,000 | \$ 120,000 | \$ (60,000) |
| Interest | 23,508 | 23,508 | 47,015 | (23,507) |
| Administrative (fiscal) charges | - | - | 514 | (514) |
| Total debt service | \$ 83,508 | \$ 83,508 | \$ 167,529 | \$ (84,021) |
| Total Expenditures | \$ 869,601 | \$ 869,601 | \$ 799,555 | \$ 70,046 |
| Net Change in Fund Balance | \$ (150,096) | \$ (150,096) | \$ 274,316 | \$ 424,412 |
| Fund Balance - January 1 | 1,616,461 | 1,616,461 | 1,616,461 | - |
| Fund Balance - December 31 | \$ 1,466,365 | \$ 1,466,365 | \$ 1,890,777 | \$ 424,412 |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-5

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|--|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Special assessments | \$ 398,341 | \$ 398,341 | \$ 392,534 | \$ (5,807) |
| Intergovernmental | - | - | 190,841 | 190,841 |
| Investment earnings | 2,000 | 2,000 | 22,689 | 20,689 |
| Miscellaneous | 500 | 500 | 240 | (260) |
| Total Revenues | \$ 400,841 | \$ 400,841 | \$ 606,304 | \$ 205,463 |
| Expenditures | | | | |
| Current | | | | |
| Conservation of natural resources | | | | |
| Other | 524,735 | 524,735 | 692,892 | (168,157) |
| Net Change in Fund Balance | \$ (123,894) | \$ (123,894) | \$ (86,588) | \$ 37,306 |
| Fund Balance - January 1 | 2,647,685 | 2,647,685 | 2,647,685 | - |
| Fund Balance - December 31 | \$ 2,523,791 | \$ 2,523,791 | \$ 2,561,097 | \$ 37,306 |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-6

**BUDGETARY COMPARISON SCHEDULE
SPRINGDALE WATERSHED SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|--|-------------------------|------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 25,000 | \$ 25,000 | \$ 24,003 | \$ (997) |
| Intergovernmental | - | - | 250,010 | 250,010 |
| Total Revenues | \$ 25,000 | \$ 25,000 | \$ 274,013 | \$ 249,013 |
| Expenditures | | | | |
| Current | | | | |
| Conservation of natural resources | | | | |
| Watershed | - | - | 323,311 | 323,311 |
| Net Change in Fund Balance | \$ 25,000 | \$ 25,000 | \$ (49,298) | \$ (74,298) |
| Fund Balance - January 1 | 49,076 | 49,076 | 49,076 | - |
| Fund Balance - December 31 | \$ 74,076 | \$ 74,076 | \$ (222) | \$ (74,298) |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-7

**SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2015**

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (b) | Unfunded Actuarial Accrued Liability (UAAL) (b - a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b - a)/c) |
|--------------------------------|--|--|--|--------------------------|---------------------------|---|
| January 1, 2008 | \$ - | \$ 1,867,528 | \$ 1,867,528 | 0.00% | \$ 6,782,042 | 27.5% |
| January 1, 2011 | - | 1,100,130 | 1,100,130 | 0.00 | 7,009,082 | 15.7 |
| January 1, 2014 | - | 788,652 | 788,652 | 0.00 | 4,582,346 | 17.2 |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-8

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2015**

| Measurement Date | Employer's Proportion of the Net Pension Liability (Asset) | Employer's Proportionate Share of the Net Pension Liability (Asset) (a) | Covered Payroll (b) | Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|-------------------------|---|--|----------------------------|---|---|
| 2015 | 0.0615% | \$ 3,187,249 | \$ 3,615,230 | 88.16% | 78.19% |

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-9

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2015**

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

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-10

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES POLICE AND FIRE FUND
DECEMBER 31, 2015**

| Measurement Date | Employer's Proportion of the Net Pension Liability (Asset) | Employer's Proportionate Share of the Net Pension Liability (Asset) (a) | Covered Payroll (b) | Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|------------------|--|---|---------------------|--|--|
| 2015 | 0.078% | \$ 886,263 | \$ 714,664 | 124.01% | 86.61% |

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-11

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES POLICE AND FIRE FUND
DECEMBER 31, 2015**

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

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-12

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES CORRECTIONAL FUND
DECEMBER 31, 2015**

| <u>Measurement Date</u> | <u>Employer's Proportion of the Net Pension Liability (Asset)</u> | <u>Employer's Proportionate Share of the Net Pension Liability (Asset) (a)</u> | <u>Covered Payroll (b)</u> | <u>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)</u> | <u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u> |
|-------------------------|---|--|----------------------------|---|---|
| 2015 | 0.29% | \$ 44,834 | \$ 526,289 | 8.52% | 96.95% |

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT A-13

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES CORRECTIONAL FUND
DECEMBER 31, 2015**

| <u>Year Ending</u> | <u>Statutorily Required Contributions (a)</u> | <u>Actual Contributions in Relation to Statutorily Required Contributions (b)</u> | <u>Contribution (Deficiency) Excess (b-a)</u> | <u>Covered Payroll (c)</u> | <u>Actual Contributions as a Percentage of Covered Payroll (b/c)</u> |
|--------------------|---|---|---|----------------------------|--|
| 2015 | \$ 50,141 | \$ 50,141 | - | \$ 573,044 | 8.75% |

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

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2015

1. General Budget Policies

The County Board adopts estimated revenue and expenditure budgets for the General Fund and 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. Expenditures may not legally exceed budgeted appropriations. Comparisons of final budgeted revenues and expenditures to actual are presented in the required supplementary information for the General Fund and special revenue funds.

2. Budget Basis of Accounting

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

3. Budget Amendments

Revenue budgets were amended in the following fund:

| | <u>Original Budget</u> | <u>Increase (Decrease)</u> | <u>Final Budget</u> |
|--------------|----------------------------|--------------------------------|-------------------------|
| General Fund | \$ 8,472,915 | \$ 7,433 | \$ 8,480,348 |

Expenditure budgets were amended in the following fund:

| | <u>Original Budget</u> | <u>Increase (Decrease)</u> | <u>Final Budget</u> |
|--------------|----------------------------|--------------------------------|-------------------------|
| General Fund | \$ 8,876,934 | \$ 8,863 | \$ 8,885,797 |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Excess of Expenditures Over Budget

The following individual major special revenue funds had expenditures in excess of budget for the year ended December 31, 2015:

| | Expenditures | Budget | Excess |
|-----------------------|--------------|--------------|--------------|
| Special Revenue Funds | | | |
| Road and Bridge | \$ 8,560,722 | \$ 6,774,000 | \$ 1,786,722 |
| Ditch | 692,892 | 524,735 | 168,157 |
| Springdale Watershed | 323,311 | - | 323,311 |

5. Other Postemployment Benefits Funded Status

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

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

6. Other Postemployment Benefits - Significant Actuarial Assumption Changes

2014

Actuarial Assumptions

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

REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA

6. Other Postemployment Benefits - Significant Actuarial Assumption Changes

2014

Actuarial Assumptions (Continued)

- The percentage of active non-elected official employees assumed to elect spousal coverage at retirement was increased from zero to actual spousal coverage election (which is approximately 20.0 percent for male employees and 12.0 percent for female employees). All elected officials who currently have spousal coverage (approximately 33.0 percent) are assumed to elect spousal coverage at retirement. In the prior valuation, all elected officials were assumed to elect spousal coverage at retirement regardless of their current coverage election. This change caused a decrease in the liability.

- Health care trend rates were revised to an initial rate of 7.5 percent for fiscal year ending 2015 decreasing by 0.5 percent annually to an ultimate rate of 4.5 percent. Actual premium increase from 2014 to 2015 was used for the fiscal year ending December 31, 2014, health care trend assumption. Previously, the initial health care trend rate was 8.0 percent, decreasing annually to an ultimate rate of 3.5 percent. This change caused an increase in the liability.

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SUPPLEMENTARY INFORMATION

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GOVERNMENTAL FUND

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT B-1

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|-----------------------------------|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 648,071 | \$ 648,071 | \$ 637,398 | \$ (10,673) |
| Intergovernmental | 20,867 | 20,867 | 32,666 | 11,799 |
| Total Revenues | \$ 668,938 | \$ 668,938 | \$ 670,064 | \$ 1,126 |
| Expenditures | | | | |
| Debt service | | | | |
| Principal | \$ 435,000 | \$ 435,000 | \$ 435,000 | \$ - |
| Interest | 193,598 | 193,598 | 193,598 | - |
| Administrative (fiscal) charges | 850 | 850 | 1,162 | (312) |
| Total Expenditures | \$ 629,448 | \$ 629,448 | \$ 629,760 | \$ (312) |
| Net Change in Fund Balance | \$ 39,490 | \$ 39,490 | \$ 40,304 | \$ 814 |
| Fund Balance - January 1 | 975,728 | 975,728 | 975,728 | - |
| Fund Balance - December 31 | \$ 1,015,218 | \$ 1,015,218 | \$ 1,016,032 | \$ 814 |

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FIDUCIARY FUNDS

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

AGENCY FUNDS

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

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

Forfeited Tax - to account for all funds received from the sale of lands forfeited for unpaid taxes and the subsequent disbursement to the various agencies.

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|---------------------------------------|------------------------------|------------------|-------------------|--------------------------------|
| <u>STATE REVENUE</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ - | \$ 370,375 | \$ 370,375 | \$ - |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ - | \$ 370,375 | \$ 370,375 | \$ - |
| <u>TAXES AND PENALTIES</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 295,772 | \$ 24,996,990 | \$ 24,987,177 | \$ 305,585 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 295,772 | \$ 24,996,990 | \$ 24,987,177 | \$ 305,585 |
| <u>FORFEITED TAX SALE</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ - | \$ 22,657 | \$ 22,657 | \$ - |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ - | \$ 22,657 | \$ 22,657 | \$ - |

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|--------------------------------------|------------------------------|------------------|-------------------|--------------------------------|
| <u>TOTAL ALL AGENCY FUNDS</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 295,772 | \$ 25,390,022 | \$ 25,380,209 | \$ 305,585 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 295,772 | \$ 25,390,022 | \$ 25,380,209 | \$ 305,585 |

OTHER SCHEDULES

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Shared Revenue

State

| | | |
|-------------------------|----|-----------|
| Highway users tax | \$ | 4,667,765 |
| County program aid | | 304,521 |
| PERA rate reimbursement | | 27,660 |
| Disparity reduction aid | | 43,775 |
| Police aid | | 91,719 |
| Enhanced 911 | | 89,006 |
| Market value credit | | 420,042 |
| Casino credit | | 86,871 |
| | | 86,871 |

Total shared revenue **\$ 5,731,359**

Reimbursement for Services

| | | |
|---|----|---------|
| General government | \$ | 731 |
| Public safety | | 7,042 |
| Highways and streets | | 69,218 |
| Conservation of natural resources | | 7,703 |
| City of Redwood Falls | | 4,706 |
| Redwood/Renville Regional Solid Waste Authority | | 167,529 |
| | | 167,529 |

Total reimbursement for services **\$ 256,929**

Payments

Local

| | | |
|---------------------------|----|---------|
| Payments in lieu of taxes | \$ | 152,285 |
| Local contributions | | 14,142 |
| | | 14,142 |

Total payments **\$ 166,427**

Grants

State

| | | |
|--|----|---------|
| Minnesota Department of Corrections | \$ | 60,387 |
| Natural Resources | | 93,375 |
| Public Safety | | 53,329 |
| Transportation | | 255,717 |
| Veterans Affairs | | 10,000 |
| Board of Water and Soil Resources | | 369,199 |
| Pollution Control Agency | | 69,692 |
| Peace Officer Standards and Training Board | | 3,998 |
| | | 3,998 |

Total state **\$ 915,697**

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

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

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Grants (Continued)

Federal

| | |
|---------------------------|-----------|
| Department of | |
| Agriculture | \$ 4,474 |
| Transportation | 2,027,568 |
| Health and Human Services | 19,514 |
| Homeland Security | 171,586 |
| | <hr/> |

Total federal **\$ 2,223,142**

Total state and federal grants **\$ 3,138,839**

Total Intergovernmental Revenue **\$ 9,293,554**

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

| Federal Grantor Pass-Through Agency Program or Cluster Title | Federal CFDA Number | Pass-Through Grant Numbers | Expenditures |
|---|------------------------------------|---|-----------------------------------|
| U.S. Department of Transportation | | | |
| Passed Through Minnesota Department of Transportation Highway Planning and Construction | 20.205 | 05954 | \$ 2,021,063 |
| Passed Through City of Worthington Highway Safety Cluster | | | |
| State and Community Highway Safety | 20.600 | 00053 | 5,160 |
| National Priority Safety Programs | 20.616 | 00053 | 276 |
| (Total expenditures for Highway Safety Cluster \$5,436) | | | |
| Minimum Penalties for Repeat Offenders for Driving While Intoxicated | 20.608 | 00053 | <u>1,069</u> |
| Total U.S. Department of Transportation | | | \$ <u>2,027,568</u> |
| U.S. Department of Homeland Security | | | |
| Passed Through Minnesota Department of Public Safety Disaster Grants - Public Assistance (Presidentially Declared Disasters) | 97.036 | 127-99127 | \$ 149,707 |
| Emergency Management Performance Grants | 97.042 | 00066 | 21,194 |
| Passed Through Southwest Minnesota Regional Emergency Communications Board Homeland Security Grant Program | 97.067 | 00007 | <u>685</u> |
| Total U.S. Department of Homeland Security | | | \$ <u>171,586</u> |
| Total Federal Awards | | | \$ <u><u>2,199,154</u></u> |

The County did not pass any federal awards through to subrecipients during the year ended December 31, 2015.

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REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Redwood County. The County's reporting entity is defined in Note 1 to the basic financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Redwood County under programs of the federal government for the year ended December 31, 2015. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Redwood County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Redwood County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Redwood County has elected to not use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

4. Reconciliation to Schedule of Intergovernmental Revenue

| | |
|---|---------------------|
| Federal grant revenue per Schedule of Intergovernmental Revenue | \$ 2,223,142 |
| Unavailable revenue in 2014, recognized as revenue in 2015 | |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (CFDA #10.561) | (4,474) |
| Temporary Assistance for Needy Families (CFDA #93.558) | (1,022) |
| Child Support Enforcement (CFDA #93.563) | (12,217) |
| Refugee and Entrant Assistance - State-Administered Programs (CFDA #93.566) | (47) |
| Foster Care - Title IV-E (CFDA #93.658) | (495) |
| Children's Health Insurance Program (CFDA #93.767) | (4) |
| Medical Assistance Program (CFDA #93.778) | (5,729) |
| | <hr/> |
| Expenditures per Schedule of Expenditures of Federal Awards | <u>\$ 2,199,154</u> |

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**REDWOOD COUNTY
REDWOOD FALLS, MINNESOTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **None reported**

Noncompliance material to the financial statements noted? **No**

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **None reported**

Type of auditor's report issued on compliance for major federal programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **No**

The major federal program is:

Highway Planning and Construction

CFDA No. 20.205

The threshold for distinguishing between Types A and B programs was \$750,000.

Redwood County qualified as a low-risk auditee? **No**

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

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2014-001

Publishing Claims Paid

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

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

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

Effect: Noncompliance with Minn. Stat. § 375.12.

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

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

Client's Response:

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

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

Independent Auditor's Report

Board of County Commissioners
Redwood County
Redwood Falls, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Redwood County, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 4, 2016.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

Redwood County's Response to Finding

Redwood County's response to the legal compliance finding identified in our audit has been included in the Schedule of Findings and Questioned Costs. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 4, 2016

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REBECCA OTTO
STATE AUDITOR

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

Independent Auditor's Report

Board of County Commissioners
Redwood County
Redwood Falls, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Redwood County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the County's major federal program for the year ended December 31, 2015. 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.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Redwood County's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Redwood County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Opinion on the Major Federal Program

In our opinion, Redwood County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2015.

Report on Internal Control Over Compliance

Management of Redwood County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 4, 2016