

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

REDWOOD COUNTY COLLABORATIVE
REDWOOD FALLS, MINNESOTA

YEARS ENDED DECEMBER 31, 2006 AND 2007

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**REDWOOD COUNTY COLLABORATIVE
REDWOOD FALLS, MINNESOTA**

Years Ended December 31, 2006 and 2007



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

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**REDWOOD COUNTY COLLABORATIVE
REDWOOD FALLS, MINNESOTA**

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management Discussion and Analysis		3
2006 Basic Financial Statements		
General Fund Balance Sheet and Governmental Activities Statement of Net Assets	Exhibit 1	7
General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and Governmental Activities Statement of Activities	Exhibit 2	8
2007 Basic Financial Statements		
General Fund Balance Sheet and Governmental Activities Statement of Net Assets	Exhibit 3	9
General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and Governmental Activities Statement of Activities	Exhibit 4	10
Notes to the Financial Statements		11
Management and Compliance Section		
Schedule of Findings and Recommendations		20
Report on Internal Control Over Financial Reporting and Minnesota Legal Compliance		22

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**REDWOOD COUNTY COLLABORATIVE
REDWOOD FALLS, MINNESOTA**

ORGANIZATION
2007

Agency

Joint Powers Board

Bruce Tolzman
Maydra Maas
Dorothy Whipple
David Moldan
Vacant
Deb Hess
Rick Petersen
Barb Hoffman
George Dubie
Vacant
Blair Anderson
Lon Walling*
Al Landa

Redwood County Board of Commissioners
Westbrook Walnut Grove ISD #2898 Board Member
Lower Sioux Treatment Center Program Director
Red Rock Central
Parent Representative
Western Community Action, Inc., Board Member
Redwood Area
Wabasso ISD #640 Board Member
Greater Minnesota Family Services Board Member
Western Mental Health Center
Cedar Mountain ISD #2754 Board Member
Milroy ISD #635 Board Member
Tracy School District

Coordinating Team

Patrick Bruflat*
Lori Anderson
Genie Simon
Robert Tews
Vacant
Loy Woelber
Dorothy Whipple
Rick Ellingworth
John Brennan
Beverly Wilson

Ted Suss
Dan Deitte
George Dubie
Diane Reck
Dave Marlette

Redwood County Human Services Director
Redwood County Probation Officer
Redwood County Public Health Director
Cedar Mountain ISD #2754 Superintendent
Parent Representative
Westbrook Walnut Grove ISD #2898 Superintendent
Lower Sioux Treatment Center Grief Counselor
Redwood Area ISD #2897 Superintendent
Red Rock Central ISD #2884 Superintendent
Western Community Action, Inc., Family Development
Program Director
Wabasso ISD #640 Superintendent
Milroy ISD #635 Principal
Greater Minnesota Family Services Executive Director
Guardian Ad Litem Representative
Tracy School District

*2006 and 2007 Chair

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STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Joint Powers Board
Redwood County Collaborative

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Redwood County Collaborative as of and for the years ended December 31, 2006 and 2007, which collectively comprise the Collaborative's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Collaborative's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the General Fund of the Redwood County Collaborative as of December 31, 2006 and 2007, and the respective changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

October 29, 2008

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**REDWOOD COUNTY COLLABORATIVE
REDWOOD FALLS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006 AND 2007
(Unaudited)**

As management of the Redwood County Collaborative, we offer the readers of the Collaborative's financial statements this narrative overview and analysis of its financial activities for the fiscal years ended December 31, 2006 and 2007. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL REPORTING ENTITY

The Redwood County Collaborative was established in 1998 under the authority of the Joint Powers Act, pursuant to Minn. Stat. §§ 471.59 and 124D.23. The Collaborative includes Redwood County; Greater Minnesota Family Services; Western Community Action, Inc.; Western Mental Health Center; Lower Sioux Community; Redwood Area School District; Wabasso School District; Westbrook/Walnut Grove School District; Cedar Mountain School District; Milroy School District; Red Rock Central School District; and Tracy School District.

The Collaborative is governed by a 13-member Board. The Board consists of one representative from each participating member (generally elected officials) and one or more parent representative.

The financial activities of the Redwood County Collaborative are accounted for by Redwood County as fiscal agent.

The primary goal of the Collaborative is to support the healthy development of children and families.

FINANCIAL HIGHLIGHTS

The assets of the Redwood County Collaborative exceeded its liabilities by \$223,186 (net assets) in 2006 (Exhibit 1). The assets of the Redwood County Collaborative exceeded its liabilities by \$137,526 (net assets) in 2007 (Exhibit 3). Redwood County Collaborative's total net assets decreased by \$70,179 between 2005 and 2006 and decreased by \$85,660 between 2006 and 2007.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the basic financial statements. The Redwood County Collaborative's basic financial statements consist of two statements for each year that combine government-wide financial statements and fund financial statements and notes to the financial statements. The MD&A (this section) is required to accompany the basic financial statements and, therefore, is included as required supplementary information.

The first column of each of the statements presents governmental fund data. These columns focus on how money flows in and out and the balances left at year-end that are available for spending. They are reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. These columns provide a detailed short-term view of the operations and the basic services provided. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the programs. We reconcile the relationship (or differences) between governmental funds and governmental activities (reported in the third column) in the center column of each statement.

The third column in each statement presents the governmental activities' Statement of Net Assets and the Statement of Activities, which provide information about the activities of the Redwood County Collaborative as a whole and present a longer-term view of its finances. These columns include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Over time, increases or decreases in net assets are one indicator of whether its financial health is improving or deteriorating.

Governmental Fund

Revenues for the Redwood County Collaborative's General Fund decreased by \$272,684 and increased by \$110,225, while total expenditures decreased by \$90,824 and increased by \$38,835 between 2005 and 2006 and between 2006 and 2007, respectively.

As shown in the General Fund column on Exhibit 2, the amount that was received through intergovernmental revenue in 2006 was 79.0 percent of the total revenue received, or \$195,456. As shown in the General Fund column on Exhibit 4, the amount that was received through intergovernmental revenue in 2007 was 81.2 percent of the total revenue received, or \$290,399.

The Redwood County Collaborative adopts an annual appropriated budget for its General Fund on a budget year ending June 30. Due to the fiscal year ending on December 31 and the budget year ending June 30, a budget is not presented with 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of financial position. The Redwood County Collaborative's assets exceeded liabilities by \$223,186 at the close of 2006. The Redwood County Collaborative's assets exceeded liabilities by \$137,526 at the close of 2007.

	Net Assets		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Assets			
Current and other assets	\$ 138,375	\$ 224,480	\$ 293,365
Liabilities			
Other liabilities	<u>849</u>	<u>1,294</u>	<u>-</u>
Net Assets			
Unrestricted	<u>\$ 137,526</u>	<u>\$ 223,186</u>	<u>\$ 293,365</u>

Governmental Activities

The Redwood County Collaborative's activities decreased net assets by \$70,179 during 2006 and decreased the net assets during 2007 by \$85,660. Those changes represent a 23.9 percent decrease followed by a 38.4 percent decrease. Key elements in the change in net assets are as follows:

	Changes in Net Assets		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Revenues			
Intergovernmental	\$ 257,696	\$ 249,624	\$ 302,733
Interest on investments	4,792	10,263	5,994
Miscellaneous	<u>62,402</u>	<u>41,649</u>	<u>211,325</u>
Total Revenues	\$ 324,890	\$ 301,536	\$ 520,052
Expenses			
Human services	<u>410,550</u>	<u>371,715</u>	<u>462,539</u>
Net Change in Net Assets	\$ (85,660)	\$ (70,179)	\$ 57,513
Net Assets - January 1	<u>223,186</u>	<u>293,365</u>	<u>235,852</u>
Net Assets - December 31	<u>\$ 137,526</u>	<u>\$ 223,186</u>	<u>\$ 293,365</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

There were no depreciable capital assets for the Redwood County Collaborative as of December 31, 2006 or 2007.

Long-Term Debt

At December 31, 2006 and 2007, the Redwood County Collaborative had no outstanding debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

Economic factors such as the unemployment rate in the Redwood County Collaborative's service area and demographic factors, such as minority population, are not relevant to budgeting for the Collaborative. Significant decline in LCTS (local collaborative time study) has reduced the number of children eligible for Collaborative activities. Also impacting this revenue decline are CMS (Centers for Medicare and Medicaid) rulings regarding eligibility of administrative claiming.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Redwood County Collaborative's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to Lyn Rayburn, Redwood County Human Services Fiscal Supervisor, P. O. Box 510, Redwood Falls, Minnesota 56283.

2006 BASIC FINANCIAL STATEMENTS

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**REDWOOD COUNTY COLLABORATIVE
REDWOOD FALLS, MINNESOTA**

EXHIBIT 1

**GENERAL FUND BALANCE SHEET
AND GOVERNMENTAL ACTIVITIES STATEMENT OF NET ASSETS
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
DECEMBER 31, 2006**

	General Fund	Adjustments	Governmental Activities
<u>Assets</u>			
Cash and pooled investments	\$ 151,717	\$ -	\$ 151,717
Accounts receivable	17,969	-	17,969
Accrued interest receivable	626	-	626
Due from other governments	54,168	-	54,168
Total Assets	\$ 224,480	\$ -	\$ 224,480
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 1,294	\$ -	\$ 1,294
Deferred revenue	54,168	(54,168)	-
Total Liabilities	\$ 55,462	\$ (54,168)	\$ 1,294
<u>Fund Balance/Net Assets</u>			
Fund Balance			
Unreserved			
Undesignated	169,018	(169,018)	
Total Liabilities and Fund Balance	\$ 224,480		
Net Assets			
Unrestricted		\$ 223,186	\$ 223,186
Reconciliation of the General Fund Balance to Net Assets			
Fund Balance - General Fund			\$ 169,018
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			54,168
Net Assets - Governmental Activities			\$ 223,186

**REDWOOD COUNTY COLLABORATIVE
REDWOOD FALLS, MINNESOTA**

EXHIBIT 2

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
AND GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
FOR THE YEAR ENDED DECEMBER 31, 2006**

	General Fund	Adjustments	Governmental Activities
Revenues			
Intergovernmental			
State of Minnesota - Department of Human Services			
Local collaborative time study	\$ 195,456	\$ 31,668	\$ 227,124
Federal			
Prevention/treatment of substance abuse block grant	-	22,500	22,500
	\$ 195,456	\$ 54,168	\$ 249,624
Total intergovernmental			
Investment earnings	10,263	-	10,263
Miscellaneous	41,649	-	41,649
	\$ 247,368	\$ 54,168	\$ 301,536
Total Revenues			
Expenditures/Expenses			
Current			
Human services	371,715	-	371,715
	\$ (124,347)	\$ 54,168	\$ (70,179)
Net Change in Fund Balance/Net Assets			
Fund Balance/Net Assets - January 1	293,365	-	293,365
Fund Balance/Net Assets - December 31	\$ 169,018	\$ 54,168	\$ 223,186

Reconciliation of the Statement of General Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities of Governmental Activities

Net Change in Fund Balance		\$ (124,347)
Changes in revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Increase in deferred revenue		54,168
Change in Net Assets of Governmental Activities		\$ (70,179)

2007 BASIC FINANCIAL STATEMENTS

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**REDWOOD COUNTY COLLABORATIVE
REDWOOD FALLS, MINNESOTA**

EXHIBIT 3

**GENERAL FUND BALANCE SHEET
AND GOVERNMENTAL ACTIVITIES STATEMENT OF NET ASSETS
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
DECEMBER 31, 2007**

	General Fund	Adjustments	Governmental Activities
<u>Assets</u>			
Cash and pooled investments	\$ 97,873	\$ -	\$ 97,873
Accounts receivable	3,277	-	3,277
Due from other governments	37,225	-	37,225
Total Assets	\$ 138,375	\$ -	\$ 138,375
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 849	\$ -	\$ 849
Deferred revenue	21,465	(21,465)	-
Total Liabilities	\$ 22,314	\$ (21,465)	\$ 849
<u>Fund Balance/Net Assets</u>			
Fund Balance			
Unreserved			
Undesignated	116,061	(116,061)	
Total Liabilities and Fund Balance	\$ 138,375		
Net Assets			
Unrestricted		\$ 137,526	\$ 137,526

Reconciliation of the General Fund Balance to Net Assets

Fund Balance - General Fund	\$ 116,061
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	21,465
Net Assets - Governmental Activities	\$ 137,526

**REDWOOD COUNTY COLLABORATIVE
REDWOOD FALLS, MINNESOTA**

EXHIBIT 4

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
AND GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
FOR THE YEAR ENDED DECEMBER 31, 2007**

	General Fund	Adjustments	Governmental Activities
Revenues			
Intergovernmental			
State of Minnesota - Department of Human Services			
Local collaborative time study	\$ 89,417	\$ (10,203)	\$ 79,214
School link mental health	66,900	-	66,900
Federal			
Passed through Minnesota Department of Human Services			
Community mental health block grant	73,322	-	73,322
Passed through Wabasso ISD #640			
Prevention/treatment of substance abuse block grant	60,760	(22,500)	38,260
	\$ 290,399	\$ (32,703)	\$ 257,696
Investment earnings	4,792	-	4,792
Miscellaneous	62,402	-	62,402
	\$ 357,593	\$ (32,703)	\$ 324,890
Expenditures/Expenses			
Current			
Human services	410,550	-	410,550
Net Change in Fund Balance/Net Assets	\$ (52,957)	\$ (32,703)	\$ (85,660)
Fund Balance/Net Assets - January 1	169,018	54,168	223,186
Fund Balance/Net Assets - December 31	\$ 116,061	\$ 21,465	\$ 137,526
 Reconciliation of the Statement of General Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities of Governmental Activities			
Net Change in Fund Balance			\$ (52,957)
Changes in revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.			
Net decrease in deferred revenue			(32,703)
Change in Net Assets of Governmental Activities			\$ (85,660)

**REDWOOD COUNTY COLLABORATIVE
REDWOOD FALLS, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2007

1. Summary of Significant Accounting Policies

The Redwood County Collaborative's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the years ended December 31, 2006 and 2007. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the Collaborative Board are discussed below.

A. Financial Reporting Entity

The Redwood County Family Services Collaborative was established September 9, 1998, pursuant to Minn. Stat. §§ 471.59 and 124D.23. The Redwood County Children's Mental Health Collaborative was established May 1, 1999, pursuant to Minn. Stat. §§ 471.59 and 245.491. On November 16, 2000, the two combined to form the Redwood County Collaborative. The Collaborative includes Redwood County; Independent School District #2898; Lower Sioux Treatment Center; Independent School District #2884; Western Community Action, Inc.; Independent School District #2897; Independent School District #640; Greater Minnesota Family Services; Western Mental Health Center; Independent School District #2754; Independent School District #635; and Tracy School District. The purpose of the Collaborative is to provide an interagency approach to providing child and family services.

The management of the Redwood County Collaborative is vested in a Collaborative Board composed of 13 members appointed by the member parties. One parent representative is also appointed by the Joint Powers Board. No single member party retains control over the operations or has oversight responsibility for the Collaborative.

Redwood County acts as fiscal agent for the Redwood County Collaborative.

**REDWOOD COUNTY COLLABORATIVE
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

Basic financial statements include information on the Collaborative's activities as a whole and information on the individual fund of the Collaborative. These separate presentations are reported in different columns on the exhibits. Each of the exhibits starts with a column of information based on activities of the General Fund and reconciles it to a column that reports the "governmental activities" of the Collaborative as a whole.

The governmental activities columns are reported on the full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Collaborative's net assets are reported as unrestricted net assets. The statement of activities demonstrates the degree to which the expenses of the Collaborative are offset by revenues.

The balance sheet and statement of revenues, expenditures, and changes in fund balance for the General Fund are presented on the modified accrual basis and report current financial resources.

C. Measurement Focus and Basis of Accounting

The governmental activities 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

**REDWOOD COUNTY COLLABORATIVE
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

D. Budgetary Data - General Budget Policies

The Redwood County Collaborative Board adopts an estimated revenue and expenditure budget on a per-grant basis. The budget may be amended or modified at any time by the Board. Comparisons of estimated revenues and budgeted expenditures to actual have not been presented in the financial statements, as the budgets adopted for the grants are not on a calendar basis as are the financial statements.

E. Assets, Liabilities, and Net Assets or Equity

1. Assets

Deposits and Investments

Deposits on hand are valued at their fair value as of December 31, 2006 and 2007.

Receivables

The financial statements for the Collaborative contain no allowance for uncollectible accounts. Uncollectible amounts due for receivables are recognized as bad debts at the time information becomes available that would indicate the uncollectibility of the particular receivable. These amounts are not considered to be material in relation to the financial position or operations of the fund.

**REDWOOD COUNTY COLLABORATIVE
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

2. Liabilities

Deferred Revenue

The General Fund reports deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the fiscal year, the various components of deferred revenue reported in the General Fund were as follows:

	<u>2006</u>	<u>2007</u>
Governmental Activities		
Local collaborative time study	\$ 31,668	\$ 21,465
Prevention/treatment of substance abuse block grant	<u>22,500</u>	<u>-</u>
Total Governmental Activities	<u>\$ 54,168</u>	<u>\$ 21,465</u>

3. Fund Balance/Net Assets

The fund financial statement columns report reservations of fund balance for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The Collaborative reported no reservations or designations for the years ended December 31, 2006 and 2007.

Unrestricted net assets represent the accumulated earnings of the Collaborative.

4. 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 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.

**REDWOOD COUNTY COLLABORATIVE
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

F. Revenues and Expenditures

1. Revenues

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, revenues for nonexchange transactions are recognized based on the principal characteristics of the revenue. Exchange transactions are recognized as revenue when the exchange occurs. The modified accrual basis of accounting is used by the General Fund. Under this basis, revenue is not recognized in the financial statements unless it is available to finance current expenditures.

Intergovernmental

Government-mandated nonexchange transactions occur when a government at one level provides resources to a government at another level and requires that government to use them for a specific purpose. The provider government establishes purpose restrictions and also may establish time requirements. Federal and state grants mandating the Collaborative perform particular programs are government-mandated nonexchange transactions. Revenues are recognized when eligibility and time requirements are met, usually when the corresponding expenditure is incurred.

Voluntary nonexchange transactions result from legislative or contractual agreements, such as grants, entitlements, appropriations, and donations. The provider may establish purpose restrictions or eligibility requirements. Revenues are recognized in the year to which they apply according to the statute or contract. Gifts and contributions from individuals are also considered voluntary nonexchange transactions and are generally recognized when received.

Exchange Transactions

Other revenues, such as charges for services and investment income are recognized as revenue when earned.

2. Expenditures

Expenditure recognition for the General Fund includes only amounts represented by current liabilities.

**REDWOOD COUNTY COLLABORATIVE
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes

A. Assets

1. Deposits and Investments

Reconciliation of the Collaborative's total cash as reported in the basic financial statements to deposits, cash on hand, and investments follows:

	2006	2007
Statement of net assets		
Cash and pooled investments	\$ 151,717	\$ 97,873
	2006	2007
Savings account	\$ 151,717	\$ 97,873

In 2006, the checking account was closed into the savings account.

a. Deposits

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

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

2. Detailed Notes

A. Assets

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 Collaborative's deposits may not be returned to it. The Collaborative does not have a deposit policy for custodial credit risk. As of December 31, 2006 and 2007, the Collaborative's deposits were not exposed to custodial credit risk.

b. Investments

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

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

**REDWOOD COUNTY COLLABORATIVE
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

During the years ended December 31, 2006 and 2007, the Collaborative had no investments.

2. Receivables

The Collaborative did not have any receivables scheduled to be collected beyond one year as of December 31, 2006 or 2007.

Receivables as of December 31, 2006 and 2007, for the Collaborative's governmental activities are as follows:

	2006	2007
Governmental Activities		
Accounts	\$ 17,969	\$ 3,277
Accrued interest receivable	626	-
Due from other governments	54,168	37,225
 Total Governmental Activities	\$ 72,763	\$ 40,502

**REDWOOD COUNTY COLLABORATIVE
REDWOOD FALLS, MINNESOTA**

2. Detailed Notes (Continued)

B. Liabilities

Payables

Payables at December 31, 2006 and 2007, were as follows:

	<u>2006</u>	<u>2007</u>
Governmental Activities Accounts	\$ 1,294	\$ 849

3. Risk Management

The Collaborative is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Collaborative is managing these risks with a membership in the Minnesota Counties Insurance Trust, a public entity risk pool. The Collaborative retains risk for the deductible portions of the insurance policies. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three years.

4. Summary of Significant Contingencies and Other Items

Contingent Liabilities

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

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**REDWOOD COUNTY COLLABORATIVE
REDWOOD FALLS, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2007**

INTERNAL CONTROL

ITEMS ARISING THIS YEAR

07-1 Preparation of Financial Statements

The Redwood County Collaborative is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the Collaborative's management. Financial statement preparation in accordance with GAAP requires internal controls over both: (1) recording, processing, and summarizing accounting data (maintaining internal books and records); and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

As is the case with many small entities, the Collaborative has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. Accordingly, the Collaborative's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal control.

We recommend the Collaborative begin to internally prepare its annual financial statements in accordance with GAAP.

Client's Response:

Redwood County Collaborative's fiscal host will prepare financial statements in accordance with generally accepted accounting principles (GAAP) for future audits.

07-2 Audit Adjustment

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the financial statements on a timely basis. One control deficiency that typically is considered significant is identification by the auditor of a material misstatement in the financial statements not initially identified by the entity's internal control over financial reporting. During our audit, we proposed material adjustments that resulted in a significant change to the Redwood County Collaborative general ledger balances. The following adjustments were made: accounts payable was increased by \$1,294 in 2006 and \$849 in 2007; accrued interest receivable was increased by \$626 in 2006; accounts receivable was increased by \$17,969 in 2006 and \$3,277 in 2007; due from other governments was increased by \$54,168 in 2006 and \$37,225 in 2007; and deferred revenue was increased by \$54,168 in 2006 and \$21,465 in 2007.

We recommend that the Collaborative design internal control over financial reporting to detect misstatements in the financial statements. The controls should include a review of subsequent year receipts, disbursements and journal entries to identify receivables and payables. Then the general ledger balances should be reviewed to ensure that they reflect the correct amounts.

Client's Response:

Internal controls have been developed to appropriately identify payables and receivables in the IFS (Integrated Financial System) accounting system.



REBECCA OTTO
STATE AUDITOR

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Joint Powers Board
Redwood County Collaborative

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the governmental activities and the General Fund of the Redwood County Collaborative as of and for the years ended December 31, 2006 and 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Redwood County Collaborative's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Collaborative's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Collaborative's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Collaborative's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Collaborative's financial statements that is more than inconsequential will not be prevented or detected by the Collaborative's internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 07-1 and 07-2 to be significant deficiencies in internal control over financial reporting.

Minnesota Legal Compliance

We have audited the financial statements of the governmental activities and the General Fund of Redwood County Collaborative as of and for the years ended December 31, 2006 and 2007, which collectively comprise the Collaborative's basic financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except that we did not test for compliance in public indebtedness, because no debt has been issued by the Redwood County Collaborative; deposits and investments, because Collaborative funds are held by the fiscal agent; contracting and bidding, as no contracts were noted; and miscellaneous provisions, because the Collaborative is not subject to the miscellaneous provisions.

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

Redwood County Collaborative's written responses to the significant deficiencies identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit the Collaborative's responses and, accordingly, we express no opinion on them.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

October 29, 2008