

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

GOODHUE COUNTY
RED WING, MINNESOTA

YEAR ENDED DECEMBER 31, 2012

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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**GOODHUE COUNTY
RED WING, MINNESOTA**

Year Ended December 31, 2012



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

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**GOODHUE COUNTY
RED WING, MINNESOTA**

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**GOODHUE COUNTY
RED WING, MINNESOTA**

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**GOODHUE COUNTY
RED WING, MINNESOTA**

**CURRENT ORGANIZATION CHART
2012**

			<u>Term Expires</u>
Elected Officers			
Commissioners			
Chair	Dan Rehtzigel	District 3	January 2015
Vice Chair	Ronald Allen	District 1	January 2013
Board Member	Richard Samuelson	District 2	January 2013
Board Member	Jim Bryant	District 4	January 2015
Board Member	Ted Seifert	District 5	January 2013
Attorney	Steven N. Betcher		January 2015
County Sheriff	Scott McNurlin		January 2015
Appointed Officials			
Administrator	Scott Arneson		Indefinite
Court Services	Joanne Pohl		Indefinite
Facilities Maintenance	Rick Seyffer		Indefinite
Finance Director	Carolyn Holmsten		Indefinite
Human Resources	Melissa Cushing		Indefinite
Health and Human Services	Nina Arneson		Indefinite
Information Technology	Randy Johnson		Indefinite
Land Use Management/Recorder	Lisa Hanni		Indefinite
Public Works	Greg Isakson		Indefinite
Veterans Service Officer	Robert Davis		March 2015

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Goodhue County

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Goodhue County as of and for the year ended December 31, 2012, 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 of 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Goodhue County as of December 31, 2012, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Goodhue 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 as listed in the table of contents 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.

The Tax Capacity, Tax Rates, Levies, and Percentage of Collections, Exhibit G-1, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 6, 2013, on our consideration of Goodhue 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 Goodhue County's internal control over financial reporting and compliance.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information 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. The 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 6, 2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**GOODHUE COUNTY
RED WING, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2012

(Unaudited)

In the Management's Discussion and Analysis (MD&A) we will provide readers with a narrative overview, and both a short-term and long-term analysis, of the financial activities of Goodhue County for the year ended December 31, 2012. We encourage readers to consider the information presented here in conjunction with the County's financial activity and performance.

HIGHLIGHTS

- On December 31, 2012, Goodhue County's total assets exceed liabilities by \$165,665,084, of which \$130,134,664 is the net investment in capital assets and \$2,412,619 is restricted to specific purposes. This leaves year-end unrestricted net position of \$33,117,801.
- Goodhue County's net position increased by \$4,973,411 from current operations for the year ended December 31, 2012 (\$9.73 million increase in total assets less a \$4.76 million increase in total liabilities). Asset increases can be attributed to the finalization of the Sheriff's 800 Mhz Radio Project and increases in highway construction due to bond funding.
- Overall program expenses for 2012 were \$45,667,541, an increase of \$1,187,493 (2.7 percent) from 2011. From a percentage standpoint, the largest areas of increase were in economic development and highways and streets. Revenues increased by 2.3 percent, or \$1,137,467, during 2012. The largest area of increase in dollars can be found in property taxes and is attributed to the state's decision to remove tax credits from property owners. Formerly, these tax credits were sent to the County from the state as intergovernmental revenue; but due to legislative changes, these are now paid directly as property taxes by Goodhue County constituents. General revenues contributed \$29,567,213 towards program expenses, an increase of \$721,960 from the previous year.
- On September 23, 2010, there was a major flood event in southern Minnesota. The County, along with the Minnesota Department of Employment and Economic Development, has issued flood loans through the Minnesota Investment Fund (MIF) of \$869,612 to local businesses for economic recoveries. It is expected that 50 percent of these borrowed proceeds will be returned to Goodhue County within the next years. These dollars will be committed for the purpose of assistance with other economic development projects within the County.

- The County also continued with payments on the older debt issuances and reduced these liabilities by \$1,730,882 in 2012. The final levy for this older debt will take place in 2013 with a final payment of about \$2 million paid in February 2014.
- In August 2012, the County issued two bonds in the aggregate amount of \$6,360,000. The highway bond was \$5,065,000 and covered 2011 and 2012 construction reimbursements and a portion of 2013 planned project expenses. Qualified Energy Conservation Bonds (QECCB) in the amount of \$1,295,000 are for reimbursements from a 2011-2012 Government Center Energy Project. The structuring of these bonds allows for the potential to sell bonds in the next couple years and maintain a consistent levy burden on local taxpayers.
- The Board continues to analyze long-range needs for the County's highways and streets. US Highway 52, which runs north and south within the County, has been updated with federal, state, and local dollars. The Mayo Clinic Health System is building a new facility just off US Highway 52 in Cannon Falls and is expected to open in the fall of 2014. This project plus a road to circle the southeast side of Cannon Falls are both in the detailed planning stages. State funding contributes to the projects; however, the Board anticipates selling bonds in 2014 to complete the financing. In addition, the County Board has committed \$2,000,000 to a deadly intersection south of Cannon Falls which would be included in the 2014 bond sale.
- In addition to planning for highway needs, the Board is examining current facility concerns. The Public Health Building was vacated in 2012 due to its deteriorating condition and, in May 2013, a decision was made to demolish it. This situation, coupled with the Board's decision in June 2012 to not join a 12-County Human Services model, has accelerated the need for long-range facility planning. Current options under consideration are either a remodel of the County's Citizens Building or building a new building in the old Public Health footprint. A final decision is expected in 2013 with potential bonding to follow sometime in 2014. Also included in these discussions are potential financing for garage space, roofs, and a fourth courtroom.
- At the end of 2012, the General Fund's unassigned fund balance was \$10,259,506, which represents approximately 46 percent of expenditures for the year (\$22,437,192). In 2011, the General Fund's unassigned fund balance was \$7,680,519, which was approximately 32 percent of expenditures for the year. The reason for the increase in the 2012 unassigned fund balance when compared to the 2011 unassigned fund balance can be attributed to two main factors: (1) the 2012 replenishment of fund balance due to the issuance of QECCB for reimbursement of 2011 spending and (2) higher than expected revenues in a few key areas (inmate boarding and County program aid).

- In December 2006, Goodhue County and NSP/Xcel Energy signed a ten-year Revenue Stabilization agreement detailing a payment in lieu of tax, which NSP/Xcel agrees to pay to Goodhue County to replace tax revenue that the County lost beginning in payable 2008 due to valuation changes made by the Minnesota Department of Revenue. With the agreement in place, NSP/Xcel agreed to match at least what it paid to the County in 2007. The first four years of the agreement required Xcel/NSP to make payments ranging from \$176,642 to \$537,507. Legislative action in 2011 replaced Market Value Aid with Market Value Credit. This shifted property taxes to commercial property which, in turn, increased the liability Xcel/NSP had in Goodhue County. For the first time since implementation, Xcel's 2012 tax liability was greater than 2007, so no stabilization payment was necessary. After reviewing current tax laws, both parties believed the agreement no longer met its purpose, and in March 2013, it was terminated.
- During 2009 to 2011, the County was involved in revising and supporting its local ordinance regarding wind energy. The Minnesota Public Utilities Commission (PUC) and the Minnesota Court of Appeals have both been heavily involved. In June 2013, the PUC revoked the certificate of need for the Goodhue Wind/New Era Wind Project and ordered the company to present a plan to begin producing electricity or turn in its site permit by August 23, 2013.
- The geographic area of Goodhue County has been found to contain large deposits of readily accessible silica sand which is used in the oil and natural gas drilling technique called "fracking." The proposed economic benefit of mining this sand seen by some residents conflicts with what others deem as potential problems of disrupting the landscape along with possible air and water pollution. Starting in 2011, the County Board, assisted by the County Land Use and Attorney Departments, along with the planning Advisory Committee and a Mining Study Committee appointed by the Goodhue County Board, has spent a large amount of time studying the issue. Unlike wind energy where the PUC could choose to disregard the County ordinance, the County Comprehensive Plan and Zoning Ordinance will be the determining factor of if/how this sand is mined within the County. In June 2013, the County Board approved some changes to the ordinance which would allow the mining of silica sand with certain restrictions and subject to a Conditional/Interim Use Permit. In addition, the Board left in place an existing Interim Ordinance imposing a moratorium on all silica sand mining pending further evaluation of alternatives. The Board has until September 2013 to extend the moratorium for up to one additional year if it concludes that more time is necessary to study the mining issue or the State of Minnesota's newly enacted and pending silica sand mining regulations.

OVERVIEW OF THE FINANCIAL STATEMENTS

The three main sections of this report are: introduction, financial, and supplementary. The introduction contains the County's organization structure and principal officials. The financial section includes the MD&A and is intended to serve as a roadmap of the basic financial statements. These statements consist of three parts: (1) government-wide financial statements,

(2) fund financial statements, and (3) notes to the financial statements. The required supplementary information section contains the budget to actual presentation for the County's major funds. Other supplementary information is included to enhance the reader's understanding of County financial activity (such as information about federal grant programs).

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with a long-term and broad overview of the County's finances as a whole in a manner similar to a private-sector business. To accomplish this goal, transactions are valued on a full accrual basis. The Statement of Net Position (Exhibit 1) presents information on all County assets (what we own) and liabilities (what we owe). The difference between assets and liabilities is reported as net position. Over time, changes in net position may be an indication of an improving or deteriorating County financial position. Other non-financial factors, such as changes in the County's property tax base and the condition of County roads, must also be considered to assess the overall health of the County.

The Statement of Activities (Exhibit 2) presents information on the change in net position for the most recent year. Said changes are reported as soon as a financial event results in a change, regardless of the timing of related cash flows. Therefore, results reported will result in cash flows in a future period. For example, uncollected property taxes and earned, but unused, vacation leave are included here, but the cash will not be received or expended until a later year.

In the Statement of Net Position and the Statement of Activities mentioned above, we divide the County into two kinds of activities:

1. Governmental activities:

The principal support for governmental activities for Goodhue County is property taxes and intergovernmental revenue. Governmental activities include:

- General Government,
- Public Safety,
- Highways and Streets,
- Human Services,
- Health,
- Sanitation,
- Culture and Recreation,
- Conservation of Natural Resources, and
- Economic Development.

General government includes services such as general administration, courts, property assessment, records management, and tax collections. Additional information is included in the notes to the financial statements.

2. Component units:

The County includes one separate legal entity in its report, the Belle Creek Watershed. Although legally separate, the “component unit” is important because the County is accountable for it.

The financial statements provide two other sources of information:

1. Budgetary comparisons:

Goodhue County adopts an annual budget for the General Fund, all other special revenue funds, and the Debt Service Fund. Budgetary comparison schedules are provided here for these funds.

2. Notes to the financial statements:

The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

A useful tool for analyzing financial statements is comparative information from previous years. Net position may be a useful indicator of a government’s financial position over time. As of December 31, 2012, assets exceeded liabilities by \$165,665,084. The following table provides a summary of Goodhue County’s governmental net position, which increased \$4,973,411 from the previous year.

**Table 1
Net Position**

	Governmental Activities		
	2012	2011	\$ Change
Current and other assets	\$ 47,089,502	\$ 41,741,663	\$ 5,347,839
Capital assets	137,415,052	133,034,002	4,381,050
Total Assets	\$ 184,504,554	\$ 174,775,665	\$ 9,728,889
Long-term debt outstanding	\$ 15,855,216	\$ 11,122,421	\$ 4,732,795
Other liabilities	2,984,254	2,961,571	22,683
Total Liabilities	\$ 18,839,470	\$ 14,083,992	\$ 4,755,478
Net Position			
Net investment in capital assets	\$ 130,134,664	\$ 127,432,667	\$ 2,701,997
Restricted	2,412,619	2,806,336	(393,717)
Unrestricted	33,117,801	30,452,670	2,665,131
Total Net Position	\$ 165,665,084	\$ 160,691,673	\$ 4,973,411

The largest portion of Goodhue County's net position, 78.5 percent, or approximately \$130 million, represents investments in capital assets, less any related debt used to acquire those assets. Capital assets are investments in land, buildings, machinery and equipment, as well as roads and bridges. These assets are used to provide services and utilities to County citizens and, consequently, are not available for future spending. Resources needed to repay the debt must be provided from other sources since the assets themselves cannot be used to liquidate these liabilities.

An additional \$33 million of net position, or 20 percent, represents unrestricted net position that may be used to meet ongoing obligations to citizens and creditors. In 2012, unrestricted net position increased by \$2,665,131.

Governmental Activities

Reflected in Table 2 are the changes in revenues and expenses sorted by activity. Total 2012 revenue for County governmental activities increased by 2.3 percent, and expenses increased by 2.7 percent. Property taxes went up 6.9 percent due to the shift in credits received from the State of Minnesota for property tax relief. However, the increase to the County's levy for 2012 was only 2 percent, or \$500,000.

Table 2
Changes in Net Position

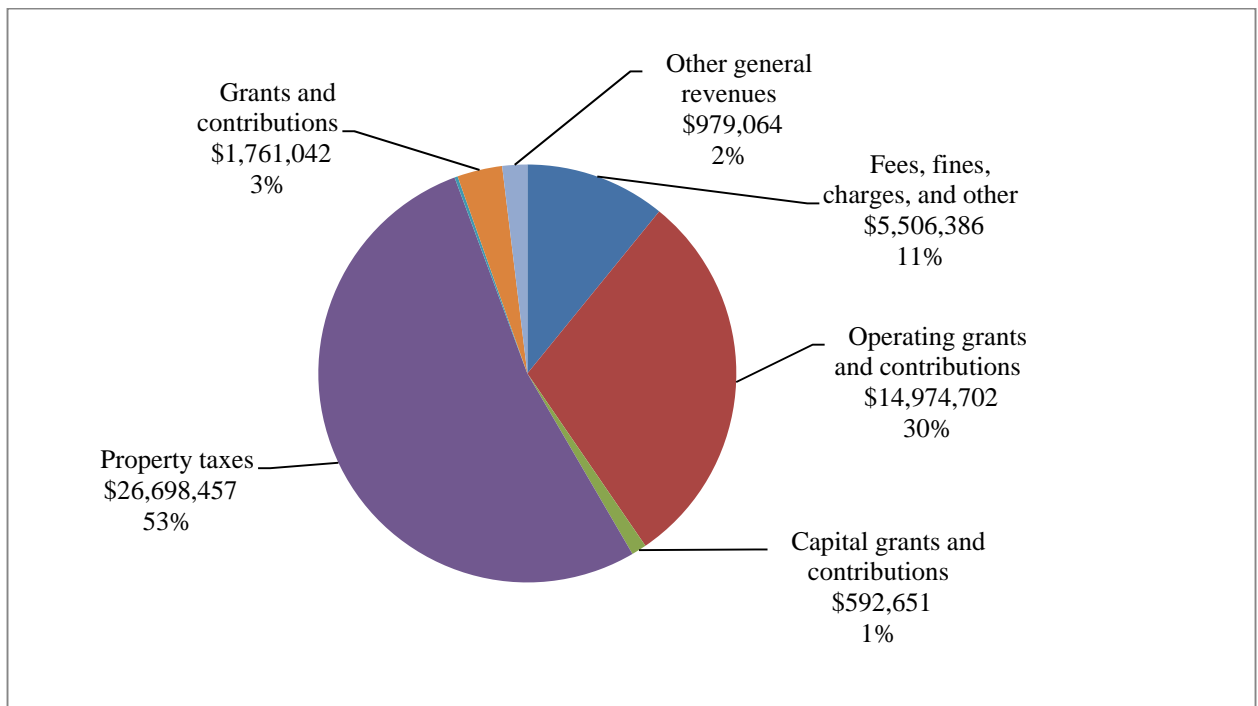
	Governmental Activities			
	2012	2011	\$ Change	% Change
Revenues				
Program revenues				
Fees, fines, charges, and other	\$ 5,506,386	\$ 5,634,378	\$ (127,992)	(2.3)
Operating grants and contributions	14,974,702	14,896,807	77,895	0.5
Capital grants and contributions	592,651	127,047	465,604	366.5
General revenues				
Property taxes	26,698,457	24,978,475	1,719,982	6.9
Other taxes	128,650	98,878	29,772	30.1
Grants and contributions	1,761,042	2,619,221	(858,179)	(32.8)
Other general revenues	979,064	1,148,679	(169,615)	(14.8)
Total Revenues	\$ 50,640,952	\$ 49,503,485	\$ 1,137,467	2.3
Program expenses				
General government	9,601,229	\$ 9,508,528	\$ 92,701	1.0
Public safety	11,823,758	11,664,141	159,617	1.4
Highways and streets	9,778,522	7,989,220	1,789,302	22.4
Sanitation	786,078	1,086,288	(300,210)	(27.6)
Human services	9,462,127	9,585,301	(123,174)	(1.3)
Health	2,605,568	2,947,593	(342,025)	(11.6)
Culture and recreation	591,272	632,536	(41,264)	(6.5)
Conservation of natural resources	691,527	699,951	(8,424)	(1.2)
Economic development	108,427	60,189	48,238	80.1
Interest	219,033	306,301	(87,268)	(28.5)
Total Program Expenses	\$ 45,667,541	\$ 44,480,048	\$ 1,187,493	2.7

	Governmental Activities			
	2012	2011	\$ Change	% Change
Increase (Decrease) in Net Position	\$ 4,973,411	\$ 5,023,437	\$ (50,026)	(1.0)
Net Position - January 1	160,691,673	155,668,236	5,023,437	3.2
Net Position - December 31	\$ 165,665,084	\$ 160,691,673	\$ 4,973,411	3.1

Overall, County governmental program revenues increased from \$20,658,232 in 2011 to \$21,073,739 in 2012, with a large increase in capital grants and contributions. Fees, fines, charges, and other revenues decreased slightly by just under \$128,000, or 2.3 percent, from 2011 to 2012. Operating grants and contributions remained fairly level (0.5 percent increase). The County paid for the remaining “public benefit” portion of governmental activities with 2012 general revenue dollars of \$29,567,213, up \$721,960 from 2011. General revenues, which are made up of primarily taxes, also include grants and the sale of capital assets.

Total program expenditures reflect a net increase of 2.7 percent. The increase seen in highways and streets of \$1,789,302 is due to the larger volume of projects scheduled during 2012. In program areas where expenses were down, those decreases ranged from 1.2 percent (conservation) to 28.5 percent (interest).

**Governmental Activities
Revenues by Source**



Per Table 2, one can see the cost of all governmental activities in 2012 was \$45,667,541, compared to \$44,480,048 in 2011. However, as shown in the Statement of Activities (Financial Statement Exhibit 2), not all of this is paid with County taxes. Those who directly benefited from the programs paid \$5,506,386 of the cost. For example, direct users are charged things such as building permit fees, recording fees, inmate boarding fees, etc. Another \$15,567,353 was covered by other governments and organizations that subsidized either a specific program or general operations with operating or capital grants and contributions. Some examples of grants received are State Construction Aid, County Program Aid, State Police Aid, Probation Officer Salary Reimbursements, WIC, and other Health and Human Services programs. The total amount financed for governmental activities through County general revenues was \$29,567,213.

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

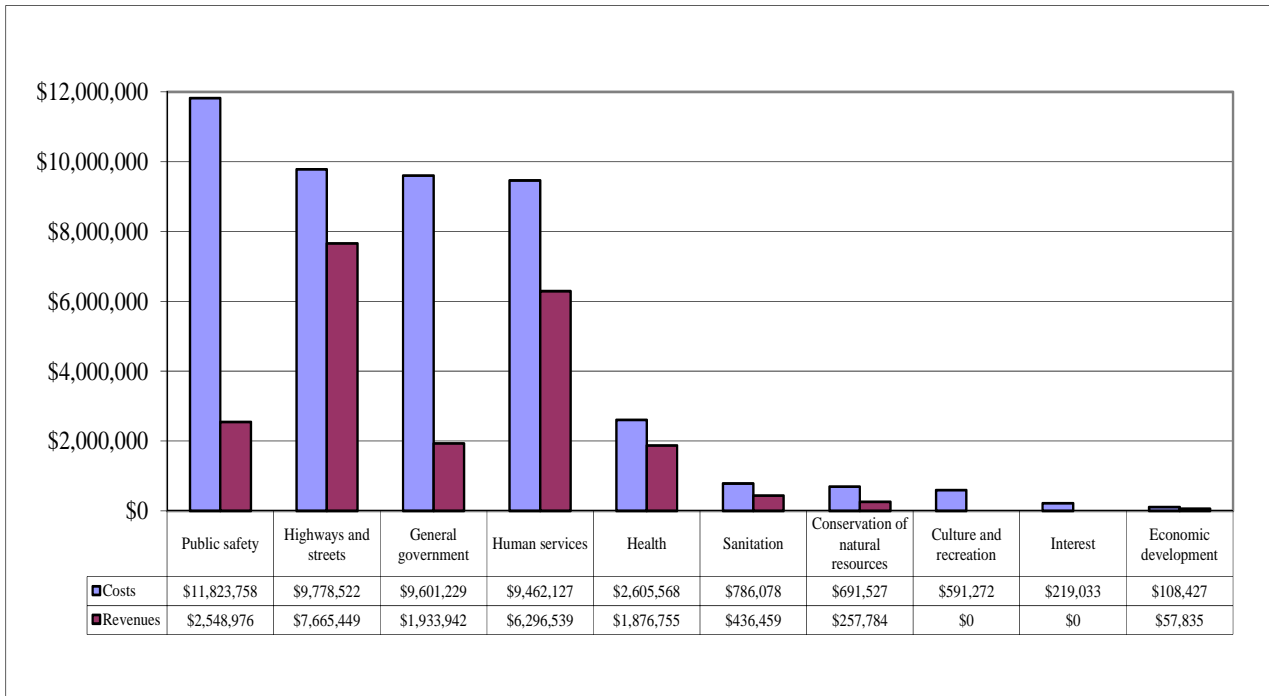
Table 3
Governmental Activities
Costs of Services

	Total Cost of Services		
	2012	2011	\$ Change
Public safety	\$ 11,823,758	\$ 11,664,141	\$ 159,617
Highways and streets	9,778,522	7,989,220	1,789,302
General government	9,601,229	9,508,528	92,701
Human services	9,462,127	9,585,301	(123,174)
Health	2,605,568	2,947,593	(342,025)
All others	2,396,337	2,785,265	(388,928)
Totals	\$ 45,667,541	\$ 44,480,048	\$ 1,187,493

	Net Cost of Services		
	2012	2011	\$ Change
Public safety	\$ 9,274,782	\$ 9,137,415	\$ 137,367
Highways and streets	2,113,073	1,727,340	385,733
General government	7,667,287	7,019,972	647,315
Human services	3,165,588	3,663,484	(497,896)
Health	728,813	627,346	101,467
All others	1,644,259	1,646,259	(2,000)
Totals	\$ 24,593,802	\$ 23,821,816	\$ 771,986

The net cost of services increased \$771,986, or 3.24 percent, compared to the previous year. The following chart represents, by program, the costs incurred for these County services and the program revenues received in conjunction with those services. The difference leads to the amount of tax revenues needed to help offset operational costs.

**Governmental Activities
Costs and Program Revenues**



Fund Level Financial Analysis

The fund level financial statements offer more detailed information than the government-wide statements. Using separate funds provides a way to ensure and demonstrate compliance with finance-related legal requirements. Some funds are required to be established by state law and by bond covenants. As recommended by Minnesota County Financial Accounting & Reporting Standards (COFARS), the County strives to maintain the minimum number of funds to meet our legal and operating requirements.

Governmental funds are used to account for the same functions or programs reported as governmental activities in the government-wide financial statements, such as general government or human services. However, the governmental fund financial statements differ from the government-wide statements.

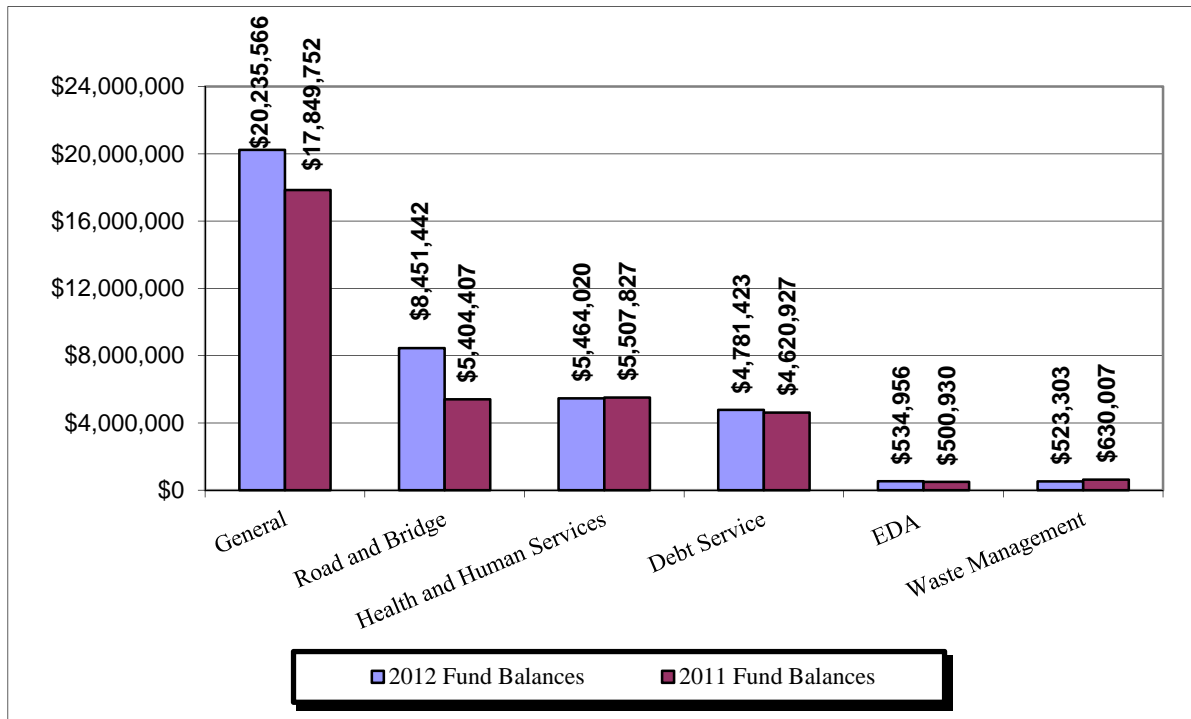
The focus of Goodhue County’s governmental funds is to provide information on near-term inflows, outflows, and balances of available resources. Therefore, the timing of cash flows is taken into account in the governmental fund financial statements, while it is disregarded in the government-wide statements. This information may be useful in evaluating governments’ near-term financing requirements as well as the available resources. Reconciliations of governmental funds to government-wide governmental activities appear in Exhibits 4 and 6 of the financial statements.

The County’s Funds

Goodhue County utilizes five major governmental funds. These funds are: (1) General, (2) Road and Bridge Special Revenue, (3) Health and Human Services Special Revenue, (4) Economic Development Authority Special Revenue, and (4) Debt Service.

At year-end, the County’s governmental funds (as presented in the balance sheet on Exhibit 3) reported a combined fund balance of \$39,990,710. This represents an increase of almost \$5.5 million (15.87 percent) from December 31, 2011. Most of this increase can be attributed to the net bonding activity in 2012. Approximately \$1.3 million was received as reimbursement for earlier spending on an energy project in the Government Center, and just over \$3.0 million was left in bond proceeds for 2013 construction spending.

**Governmental Funds
Fund Balances
(Exhibit 3)**



The General Fund is the primary operating fund of the Goodhue County government. Most of the County's traditional services are reported here. The General Fund's fund balance increased by \$2,385,814, or 13.37 percent, in 2012. This was largely due to the replacement of funds used during the Government Center Energy Efficiency Project; Qualified Energy Conservation Bonds (QECB) were sold in August 2012, and proceeds were deposited back into the General Fund.

The Road and Bridge Special Revenue Fund accounts for maintenance and improvements to the infrastructure of the County. The \$8.45 million fund balance at the end of 2012 represents a significant increase of just over \$3.0 million (56.38 percent) over 2011 and is a direct result of 2012 bond proceeds for 2013 construction projects.

The Health and Human Services Special Revenue Fund exists to account for resources expended for public assistance and social services programs supported by federal, state, and local taxpayer dollars. The fund had a \$5.46 million fund balance at the end of 2012, down only \$43,807 from 2011. The fund continues to monitor its spending as approximately half of its revenue comes from other governmental sources.

The Economic Development Authority Special Revenue Fund is used to account for various economic activities, including the loans made to provide assistance with flood-related expenditures after the 2010 flood. All loan proceeds have been distributed as of June 2013. Repayments from these loans will go into a revolving loan program within this fund.

The Debt Service Fund contains resources designated for the repayment of debt obligations - yearly principal and interest payments on existing bonds. Most of these funds are derived from tax revenues. The fund had a \$4.78 million fund balance at the end of 2012, which was \$160,496 higher than the previous year. This will be used to contribute to principal and interest payments due in February of the following year.

Fiduciary funds are used to account for resources held for the benefit of parties outside the County. Since the resources of those funds are not available to support the County's programs, these funds are not included in the government-wide financial statements.

Goodhue County has three fiduciary funds, otherwise classified as agency funds. These funds are: (1) Family Collaborative Fund, (2) Taxes and Penalties Fund, and (3) Other Agency Fund. Agency funds are custodial in nature and do not involve measurement of the results of operations.

The basic Fiduciary Funds Financial Statement is Exhibit 7 of this report. Additional detail which breaks down the activity of these three funds can be found on Exhibit D-1.

General Fund Budgetary Highlights

During a December meeting held by the Goodhue County Board of Commissioners, budgets for all governmental funds are approved by resolution. The most significant budgeted fund is the General Fund.

On December 31, 2012, the County's General Fund actual expenditures were \$924,678 more than the projected budget. The biggest area of budget overage can be found in public safety, where the Sheriff's Division was almost \$600,000 over budget (finalization of the 800 MHz Radio Project), and the Adult Detention Center was almost \$200,000 over budget (higher than anticipated inmate population).

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2012, the County had \$137,415,052 invested in a broad range of capital assets, including land, buildings, equipment, and infrastructure. (See Table 4 below.) This represents a net increase of \$4,381,050, much of which is due to road construction. Also in 2012, was the finalization of the Sheriff's 800 MHz Radio Project. This project, which was under construction in progress in prior years, spans multiple years and was completed in 2012.

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

	Governmental Activities		
	2012	2011	\$ Change
Land	\$ 8,320,712	\$ 7,954,135	\$ 366,577
Construction in progress	2,061,966	6,143,520	(4,081,554)
Buildings and land improvements	22,127,445	23,050,639	(923,194)
Machinery, vehicles, furniture and equipment	11,031,640	3,881,502	7,150,138
Infrastructure	93,873,289	92,004,206	1,869,083
Totals	<u>\$ 137,415,052</u>	<u>\$ 133,034,002</u>	<u>\$ 4,381,050</u>

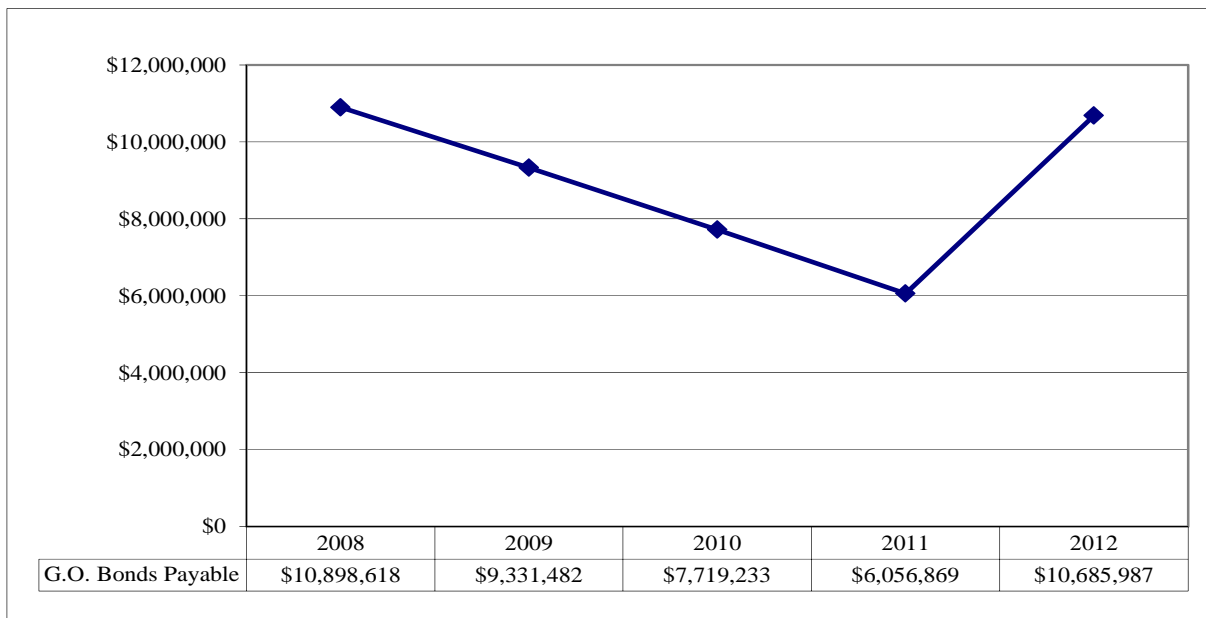
Debt Administration

Annual payments of principal and interest are regularly made February 1 with additional interest payments due August 1.

As of December 31, 2012, the County had \$10,685,987 in bonds and notes outstanding, an increase of \$4,629,118 as shown in Table 5. The Board sold approximately \$6.0 million of bonds in August 2012. These were for reimbursements on a QECB project as well as funding for 2011-2013 highway projects.

The Board continues to do long-range planning for highway and facility needs. It anticipates selling bonds of around \$8.4 million in 2014 to complete the financing of a number of highway projects. In addition, it is considering whether to build a new facility or renovate current buildings to house several departments. Included in a financing package could be dollars for garage space, roofs, and a fourth courtroom. Knowing the final payment on the 2005B Jail Bonds will be made in 2014 and realizing the need to take care of its public facilities, the Board is exploring highway and facility bond structures which will keep it within its current \$2.0 million self-imposed debt levy limit. A decision of how to proceed is expected in 2013, with financing scheduled for 2014.

**Table 5
General Obligation Bonds and Notes Payable**



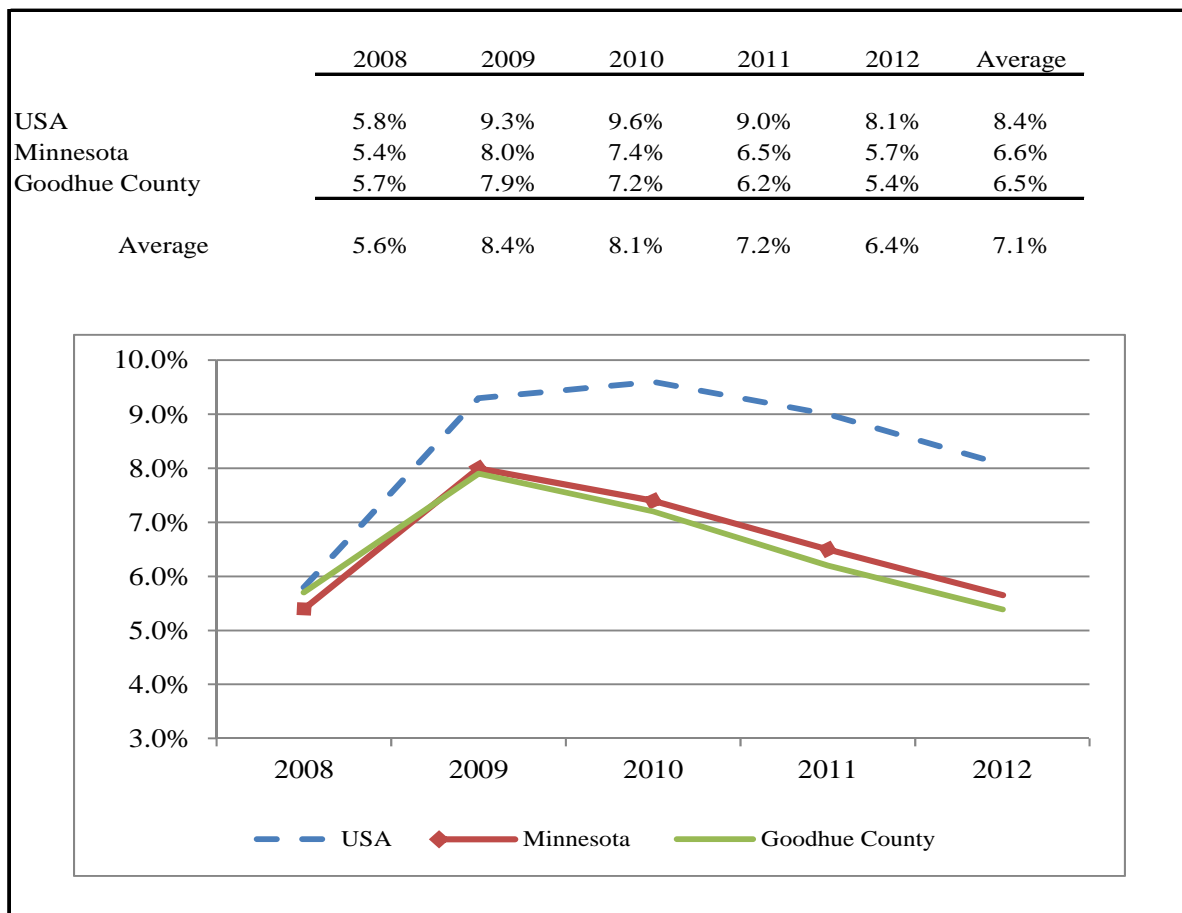
Other long-term liabilities on December 31, 2012, include: compensated absences liability (accrued vacation and sick leave payable) of \$4,250,904 and landfill closure and postclosure care liability of \$971,946. More detailed information about the County’s long-term liabilities is presented in Note 3.C. of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

Unemployment

The 12-month average for unemployment in 2012 for the U.S., Minnesota, and Goodhue County was 8.1 percent, 5.7 percent, and 5.4 percent, respectively. This compared to 2011 of 9.0 percent, 6.5 percent, and 6.2 percent. As outlined in Table 6, Goodhue County and the State of Minnesota continue to trend well below national unemployment averages. Current 2013 average unemployment rates for April 2013 were 7.1 percent, 5.4 percent, and 5.3 percent for the U.S., Minnesota, and Goodhue County, respectively. Like all local units of government, we are very concerned about both the national and local economic conditions and the impacts on our County. We believe the County will continue to trend below the national average. The County is not aware of any work force reductions in the area with businesses continuing to strive for economic stability, followed by growth.

Table 6
Unemployment Rates - 5-Year Trend



Property Value Growth

Pay 2011 and Pay 2012 property values remained fairly stable with a slight uptick in agricultural property. Since then, this classification of property has been highly desirable, and previous year's sales have driven increases in agricultural values from 25 to 56 percent per acre.

Other classifications have not had any significant changes due to economic or other conditions. Real estate sales and new construction appear to be taking a slight upswing since the fall of 2012. There continue to be pockets of foreclosures and developments that were proposed six or seven years ago that continue to struggle; however, these are not a significant part of the local tax base so do not create a substantial negative impact.

State Financial Position

The County's elected and appointed officials considered many factors when setting the fiscal year 2012 budget and the tax rates and fees that were charged for government services. Goodhue County relies on state-paid aids, credits, and grants. Should the State of Minnesota significantly change the formula for state-provided payments to the County, it could potentially have a significant impact on the following year's budget.

Budgeting Approach

The Goodhue County Board prepares budgets using a two-year cycle with a very thorough review process. As is the practice throughout Minnesota, the Board establishes a preliminary levy in September. In December, after all special levies requested have been approved by the Department of Revenue, the Board finalizes all amounts within the state-mandated levy limits. The Board continues to strive for a balanced budget while, at the same time, effectively promoting the safety, health, and well-being of our residents.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of Goodhue County's finances. If you have any questions about this report or need additional information, please contact the Finance & Taxpayer Service's Office, Goodhue County Government Center, 509 W. 5th Street, Red Wing, Minnesota 55066, or at (651) 385-3032.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2012**

	Primary Government Governmental Activities	Belle Creek Watershed Component Unit
<u>Assets</u>		
Cash and pooled investments	\$ 39,054,325	\$ 243,110
Petty cash and change funds	2,050	-
Cash with escrow agent	490,533	-
Taxes receivable		
Prior - net	662,046	-
Special assessments receivable		
Current	21,104	-
Noncurrent	63,597	-
Accounts receivable - net	241,038	-
Accrued interest receivable	121,424	260
Loans receivable	885,000	-
Due from other governments	2,233,239	281
Due from primary government	-	315
Inventories	442,522	-
Prepaid items	221,726	-
Restricted assets		
Cash and pooled investments	219,667	-
Deferred charges	85,618	-
Investment in joint venture	2,345,613	-
Capital assets		
Non-depreciable	10,382,678	378,550
Depreciable - net of accumulated depreciation	127,032,374	-
Total Assets	\$ 184,504,554	\$ 622,516
<u>Liabilities</u>		
Accounts payable	\$ 859,276	\$ -
Salaries payable	1,183,825	-
Contracts payable	123,572	-
Due to other governments	459,748	120
Accrued interest payable	61,824	-
Unearned revenue	282,661	-
Customer deposits	13,348	-
Long-term liabilities		
Due within one year	4,087,980	-
Due in more than one year	11,767,236	-
Total Liabilities	\$ 18,839,470	\$ 120

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

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**GOODHUE COUNTY
RED WING, MINNESOTA**

***EXHIBIT 1
(Continued)***

**STATEMENT OF NET POSITION
DECEMBER 31, 2012**

	<u>Primary Government Governmental Activities</u>	<u>Belle Creek Watershed Component Unit</u>
<u>Net Position</u>		
Net investment in capital assets	\$ 130,134,664	\$ 378,550
Restricted for		
General government	469,108	-
Public safety	548,021	-
Highways and streets	479,803	-
Conservation of natural resources	2,853	-
Economic development	98,219	-
Debt service	490,533	-
Landfill postclosure	219,667	-
Gravel pit postclosure	104,415	-
Unrestricted	<u>33,117,801</u>	<u>243,846</u>
Total Net Position	<u>\$ 165,665,084</u>	<u>\$ 622,396</u>

**GOODHUE COUNTY
RED WING, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary government		
Governmental activities		
General government	\$ 9,601,229	\$ 1,557,806
Public safety	11,823,758	1,332,227
Highways and streets	9,778,522	170,268
Sanitation	786,078	316,856
Human services	9,462,127	1,365,753
Health	2,605,568	705,641
Culture and recreation	591,272	-
Conservation of natural resources	691,527	-
Economic development	108,427	57,835
Interest	219,033	-
Total Governmental Activities	\$ 45,667,541	\$ 5,506,386
 Component unit		
Belle Creek Watershed	\$ 16,589	\$ 220

General Revenues

Property taxes
Gravel taxes
Mortgage registry and deed tax
Payments in lieu of tax
Grants and contributions not restricted to specific programs
Unrestricted investment earnings
Miscellaneous
Gain on sale of capital assets

Total general revenues

Change in net assets

Net Position - Beginning

Net Position - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Belle Creek Watershed Discretely Presented Component Unit
\$ 376,136	\$ -	\$ (7,667,287)	
1,216,749	-	(9,274,782)	
6,923,838	571,343	(2,113,073)	
119,603	-	(349,619)	
4,930,786	-	(3,165,588)	
1,171,114	-	(728,813)	
-	-	(591,272)	
236,476	21,308	(433,743)	
-	-	(50,592)	
-	-	(219,033)	
\$ 14,974,702	\$ 592,651	\$ (24,593,802)	
\$ -	\$ -		\$ (16,369)
		\$ 26,698,457	\$ 19,336
		78,414	-
		50,236	-
		229,942	-
		1,761,042	564
		214,448	2,682
		529,607	-
		5,067	-
		\$ 29,567,213	\$ 22,582
		\$ 4,973,411	\$ 6,213
		160,691,673	616,183
		\$ 165,665,084	\$ 622,396

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**GOODHUE COUNTY
RED WING, MINNESOTA**

**BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 20,897,224	\$ 4,746,737
Petty cash and change funds	1,375	50
Cash with escrow agent	-	-
Taxes receivable		
Prior	392,483	95,608
Special assessments		
Current	9,162	-
Prior	15,830	-
Accounts receivable	25,688	12,242
Accrued interest receivable	121,424	-
Due from other funds	5,020	3,035,970
Due from other governments	379,239	1,119,072
Prepaid items	207,231	4,125
Inventories	-	442,522
Loans receivable	80,156	-
Restricted assets		
Cash and pooled investments	-	-
	\$ 22,134,832	\$ 9,456,326
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 384,384	\$ 177,841
Salaries payable	721,846	104,684
Contracts payable	-	123,572
Due to other funds	4,568	-
Due to other governments	143,007	21,677
Deferred revenue - unavailable	516,041	577,110
Deferred revenue - unearned	116,072	-
Customer deposits	13,348	-
	\$ 1,899,266	\$ 1,004,884
Fund Balances		
Nonspendable	\$ 207,231	\$ 446,647
Restricted	1,124,397	3,031,402
Committed	6,208,186	1,440,195
Assigned	2,436,246	3,533,198
Unassigned	10,259,506	-
	\$ 20,235,566	\$ 8,451,442
Total Liabilities and Fund Balances	\$ 22,134,832	\$ 9,456,326

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

EXHIBIT 3

<u>Health and Human Services</u>	<u>Economic Development Authority</u>	<u>Debt Service</u>	<u>Nonmajor Fund Waste Management</u>	<u>Total</u>
\$ 5,474,535	\$ 310,251	\$ 7,310,565	\$ 315,013	\$ 39,054,325
550	-	-	75	2,050
-	-	490,533	-	490,533
113,964	403	51,794	7,794	662,046
-	-	11,942	-	21,104
-	-	47,767	-	63,597
186,809	-	-	16,299	241,038
-	-	-	-	121,424
-	-	-	-	3,040,990
734,928	-	-	-	2,233,239
10,355	-	-	15	221,726
-	-	-	-	442,522
-	804,844	-	-	885,000
-	-	-	219,667	219,667
<u>\$ 6,521,141</u>	<u>\$ 1,115,498</u>	<u>\$ 7,912,601</u>	<u>\$ 558,863</u>	<u>\$ 47,699,261</u>
\$ 284,279	\$ 110	\$ 79	\$ 12,583	\$ 859,276
343,305	-	-	13,990	1,183,825
-	-	-	-	123,572
5,020	-	3,031,402	-	3,040,990
292,071	-	-	2,993	459,748
132,446	413,843	99,697	5,994	1,745,131
-	166,589	-	-	282,661
-	-	-	-	13,348
<u>\$ 1,057,121</u>	<u>\$ 580,542</u>	<u>\$ 3,131,178</u>	<u>\$ 35,560</u>	<u>\$ 7,708,551</u>
\$ 10,355	\$ 391,318	\$ -	\$ 15	\$ 1,055,566
-	98,219	490,533	219,667	4,964,218
446,679	45,419	4,290,890	69,175	12,500,544
5,006,986	-	-	234,446	11,210,876
-	-	-	-	10,259,506
<u>\$ 5,464,020</u>	<u>\$ 534,956</u>	<u>\$ 4,781,423</u>	<u>\$ 523,303</u>	<u>\$ 39,990,710</u>
<u>\$ 6,521,141</u>	<u>\$ 1,115,498</u>	<u>\$ 7,912,601</u>	<u>\$ 558,863</u>	<u>\$ 47,699,261</u>

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**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012**

Fund balances - total governmental funds (Exhibit 3)		\$	39,990,710
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.			137,415,052
Investment in joint venture is not available to pay for current period expenditures and, therefore, is not reported in the governmental funds.			2,345,613
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			1,745,131
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.			
General obligation bonds	\$	(9,840,000)	
Revenue bonds		(703,317)	
Bond issuance discounts		36,099	
Bond issuance premiums		(5,908)	
Deferred amounts on refunding		23,430	
Notes payable		(142,670)	
Deferred debt issuance charges		85,618	
Compensated absences		(4,250,904)	
Accrued interest payable		(61,824)	
Landfill postclosure care liability		(971,946)	
		<u> </u>	<u>(15,831,422)</u>
Net Position of Governmental Activities (Exhibit 1)			<u> </u> <u>\$ 165,665,084</u>

**GOODHUE COUNTY
RED WING, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General	Road and Bridge
Revenues		
Taxes	\$ 16,443,340	\$ 3,715,228
Special assessments	16,644	-
Licenses and permits	251,295	10,120
Intergovernmental	3,940,194	7,790,447
Charges for services	1,970,322	10,926
Fines and forfeits	20,390	-
Gifts and contributions	60,553	-
Investment earnings	210,180	-
Miscellaneous	1,361,940	153,948
	\$ 24,274,858	\$ 11,680,669
Expenditures		
Current		
General government	\$ 9,242,536	\$ -
Public safety	11,877,029	-
Highways and streets	-	13,742,617
Sanitation	22,200	-
Human services	-	-
Health	-	-
Culture and recreation	563,172	19,230
Conservation of natural resources	689,545	-
Economic development	4,375	-
Debt service		
Principal	13,401	-
Interest	-	-
Bond issuance costs	24,934	37,643
Administrative (fiscal) charges	-	-
Intergovernmental		
Highways and streets	-	451,603
	\$ 22,437,192	\$ 14,251,093
Excess of Revenues Over (Under) Expenditures	\$ 1,837,666	\$ (2,570,424)
Other Financing Sources (Uses)		
Transfers in	\$ 16,044	\$ 608,933
Transfers out	(756,632)	(8,544)
Bonds issued	1,295,000	5,065,000
Discounts on bonds issued	(11,331)	(24,768)
Proceeds from sale of capital assets	5,067	-
	\$ 548,148	\$ 5,640,621
Change in Fund Balance	\$ 2,385,814	\$ 3,070,197
Fund Balance - January 1	17,849,752	5,404,407
Increase (decrease) in inventories	-	(23,162)
	\$ 20,235,566	\$ 8,451,442
	\$ 20,235,566	\$ 8,451,442

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

EXHIBIT 5

<u>Health and Human Services</u>	<u>Economic Development Authority</u>	<u>Debt Service</u>	<u>Nonmajor Fund Waste Management</u>	<u>Total</u>
\$ 4,437,271	\$ 12,955	\$ 2,026,521	\$ 305,147	\$ 26,940,462
-	-	8,239	-	24,883
-	-	-	7,585	269,000
6,195,771	71,339	27,223	123,707	18,148,681
1,644,040	-	-	73,164	3,698,452
-	-	-	-	20,390
-	-	-	-	60,553
-	-	-	329	210,509
421,790	43,784	-	213,578	2,195,040
\$ 12,698,872	\$ 128,078	\$ 2,061,983	\$ 723,510	\$ 51,567,970
\$ -	\$ -	\$ -	\$ -	\$ 9,242,536
-	-	-	-	11,877,029
-	-	-	-	13,742,617
-	-	-	831,299	853,499
10,239,831	-	-	-	10,239,831
2,631,962	-	-	-	2,631,962
-	-	-	-	582,402
-	-	-	-	689,545
-	104,052	-	-	108,427
-	-	1,717,481	-	1,730,882
-	-	179,458	-	179,458
-	-	-	-	62,577
-	-	4,548	-	4,548
-	-	-	-	451,603
\$ 12,871,793	\$ 104,052	\$ 1,901,487	\$ 831,299	\$ 52,396,916
\$ (172,921)	\$ 24,026	\$ 160,496	\$ (107,789)	\$ (828,946)
\$ 136,614	\$ 10,000	\$ -	\$ 1,085	\$ 772,676
(7,500)	-	-	-	(772,676)
-	-	-	-	6,360,000
-	-	-	-	(36,099)
-	-	-	-	5,067
\$ 129,114	\$ 10,000	\$ -	\$ 1,085	\$ 6,328,968
\$ (43,807)	\$ 34,026	\$ 160,496	\$ (106,704)	\$ 5,500,022
5,507,827	500,930	4,620,927	630,007	34,513,850
-	-	-	-	(23,162)
\$ 5,464,020	\$ 534,956	\$ 4,781,423	\$ 523,303	\$ 39,990,710

**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 5,500,022

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

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

Deferred revenue - December 31	\$ 1,745,131	
Deferred revenue - January 1	<u>(2,525,514)</u>	(780,383)

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. Also, in the statement of activities, only the gain or loss on the disposal of assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net book value of the assets sold.

Expenditures for general capital assets and infrastructure	\$ 9,920,193	
Net book value of assets sold	(60,916)	
Current year depreciation	<u>(5,478,227)</u>	4,381,050

In the statement of net assets, an asset is reported for the equity interest in joint venture. The change in net assets differs from the change in fund equity by the increases and decreases in the investment in joint venture. 567,026

Issuing long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources. Neither transaction, however, has any effect on net assets.

The net proceeds for debt issuance are		
Bonds issued	\$ (6,360,000)	
Bond issuance costs	62,577	
Discount on bonds issued	<u>36,099</u>	(6,261,324)

Principal repayments		
Expenditures for principal retirement		1,730,882

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.

Amortization of deferred issuance costs	\$ (23,653)	
Amortization of deferred charges on refunding	(34,102)	
Amortization of bond premiums	4,742	
Change in accrued interest payable	22,729	
Change in landfill postclosure care liability	22,091	
Change in compensated absences	(132,507)	
Change in inventories	<u>(23,162)</u>	<u>(163,862)</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ 4,973,411

FIDUCIARY FUNDS

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**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2012**

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and pooled investments	\$ 1,675,403
Accounts receivable	35,782
Due from other governments	<u>48,980</u>
Total Assets	<u><u>\$ 1,760,165</u></u>
<u>Liabilities</u>	
Due to component unit	\$ 315
Due to other governments	<u>1,759,850</u>
Total Liabilities	<u><u>\$ 1,760,165</u></u>

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**GOODHUE COUNTY
RED WING, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012

1. Summary of Significant Accounting Policies

Goodhue County’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2012. 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

Goodhue County was established March 5, 1853, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Goodhue County (primary government) and its blended and discretely presented component units. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Blended Component Unit

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

<u>Component Unit</u>	<u>Component Unit Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Economic Development Authority (EDA)	County Commissioners are the members of the EDA Board.	Separate financial statements are not prepared.

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Discretely Presented Component Units

While part of the reporting entity, discretely presented component units are presented in a separate column in the government-wide financial statements to emphasize that they are legally separate from the County. Goodhue County has one discretely presented component unit.

<u>Component Unit</u>	<u>Component Unit Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Belle Creek Watershed District	County appoints members to a three-member Board of Managers. The County also issues debt for the District.	Separate financial statements are not prepared.

Joint Ventures

The County participates in several joint ventures which are described in Note 5.C.

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 the primary government and its discretely presented component unit. 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.

The government-wide statement of net position is presented on a consolidated basis and is 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.

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds and blended component unit. Separate statements for each fund category--governmental and fiduciary--are presented. The emphasis of governmental fund financial statements is on major individual governmental funds, with each displayed as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor 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 revenue sources from the federal, state, and other oversight agencies, as well as committed property tax revenues for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

The Health and Human Services Special Revenue Fund accounts for restricted revenue sources from the federal, state, and other oversight agencies, as well as committed property tax revenues used to account for economic assistance and community social services programs.

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Economic Development Authority (EDA) Special Revenue Fund accounts for restricted revenue sources from federal, state, and other oversight agencies, as well as committed property tax revenues used to account for various economic activities including the loans made to provide assistance with flood-related expenditures after the 2010 flood. Repayments from these loans will go in to a revolving loan program within this fund.

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

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

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

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. Goodhue County considers all revenues to be available if they are 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, shared revenues, licenses, and interest are all considered to be susceptible

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured.

Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Finance Director for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2012, 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 2012 were \$209,705.

Goodhue County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission (SEC), but does operate in a manner consistent with Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7). Therefore, the investment in the pool is measured at the net asset value per share provided by the pool.

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments (Continued)

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

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

2. Receivables and Payables

Activity 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.”

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

2. Receivables and Payables (Continued)

Advances between funds, as reported in the fund financial statements, are offset by a nonspendable balance account in applicable governmental funds to indicate that they are not in spendable form.

All receivables, including those of the discretely presented component unit, are shown net of an allowance for uncollectibles.

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

3. Inventories and Prepaid Items

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

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

4. Restricted Assets

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000. 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 the primary government, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	5 - 20
Buildings	25 - 50
Building improvements	20 - 50
Public domain infrastructure	25 - 75
Furniture, equipment, and vehicles	3 - 20

6. Compensated Absences

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Delinquent property taxes	\$ 507,541	\$ -
Special assessments receivable	84,701	-
Loans receivable	493,682	166,589
Receivables that do not provide current financial resources	659,207	-
Grant drawdowns prior to meeting all eligibility requirements	-	116,072
Total Deferred/Unearned Revenue for All Governmental Funds	\$ 1,745,131	\$ 282,661

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types 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 the discount on debt issuances is reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Classification of Net Position

Net position in government-wide 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 investment in capital assets.

10. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the 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 for 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.

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

10. Classification of Fund Balances (Continued)

Committed - amounts that can be used only for the specific purposes imposed by formal action (ordinance or 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 (ordinance or 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 or the Finance Director who have been delegated that authority by Board resolution.

Unassigned - the residual classification for the General Fund, it 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.

The 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.

The County Board reviews financial activities of the County to ensure compliance with established policies. It is the County's policy to fund current expenditures with current revenues and to strive to maintain a diversified and stable revenue stream to protect the government from problematic fluctuations in any single revenue source and provide stability in providing ongoing services.

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

10. Classification of Fund Balances (Continued)

Goodhue County's General Fund unassigned fund balance will be maintained to provide the County with sufficient working capital and a margin of safety to address emergencies without issuing debt.

11. 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.

E. 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 all governmental fund types. Under this basis, revenue is not recognized in the financial statements unless it is available to finance current expenditures.

Imposed Nonexchange Transactions

Imposed nonexchange transactions result from assessments by governments on non-governmental entities and individuals. Property taxes, fines and penalties, and property forfeitures are imposed nonexchange transactions. Revenues from property taxes are recognized in the period for which the taxes were levied to the extent they are collected in the current period or soon enough thereafter to be used to pay liabilities of the current period. Property taxes receivable but not available are reported as deferred revenue and will be recognized as revenue in the fiscal year that they become available. Fines and penalties and property forfeitures are recognized in the period received.

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Revenues (Continued)

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 County 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.

Tax credits paid by the state are included in intergovernmental revenues and are recognized as revenue in the fiscal year that they become available. Subject to the availability criterion, state-aid highway allotments for highway maintenance and construction are recognized as revenue in the year of allotment.

Exchange Transactions

Special assessments levied against benefiting properties are recognized under the modified accrual basis when available to finance current expenditures. Other revenues, such as licenses and permits, charges for services, and investment income, are recognized as revenue when earned.

**GOODHUE COUNTY
RED WING, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Expenditures in Excess of Budget

The following is a summary of the individual funds which had expenditures in excess of final budget for the year ended December 31, 2012.

	<u>Final Budget</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund	\$ 21,512,514	\$ 22,437,192	\$ 924,678
Special Revenue Funds			
Health and Human Services	12,869,509	12,871,793	2,284
Economic Development Authority	23,683	104,052	80,369
Debt Service Fund	1,899,145	1,901,487	2,342

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Reconciliation of the County's total deposits, cash on hand, and investments to the basic financial statement follows:

Governmental funds	
Cash and pooled investments	\$ 39,054,325
Petty cash and change funds	2,050
Cash with escrow agent	490,533
Restricted cash	219,667
Fiduciary funds	
Agency funds	
Cash and pooled investments	<u>1,675,403</u>
Total Cash and Investments	<u>\$ 41,441,978</u>
Deposits	\$ 13,635,556
Petty cash and change funds	2,050
Investments	<u>27,804,372</u>
Total	<u>\$ 41,441,978</u>

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

The County is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. All County deposits are required by Minn. Stat. § 118A.03 to 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 at the close of the financial institution's banking day, not covered by insurance or bonds.

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

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a financial institution failure, the County's deposits may not be returned to it. The County's policy on custodial credit risk mirrors state statute. As of December 31, 2012, Goodhue County's deposits were not exposed to custodial credit risk.

b. Investments

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 minimizes its exposure to interest rate risk by investing in both short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County has no policy concerning custodial credit risk.

At December 31, 2012, all of the investments held in the escrow agent accounts listed in the table in this section, totaling \$490,533, were 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 does not have a policy on the concentration of credit risk.

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

The following table presents the County's investment balances at December 31, 2012, and information relating to potential custodial and concentration credit risks:

Investment - Issuer	Credit Risk		Concentration Risk (%)	Carrying (Fair) Value
	Credit Rating	Rating Agency		
Mutual funds				
MAGIC - cash management funds	N/A	N/A	N/A	\$ 5,004
Wells Fargo Brokerage - money market mutual funds	Aaa	Moody's	N/A	248,903
Total mutual funds				\$ 253,907
Commercial paper				
Wells Fargo Brokerage				
Mitsubishi Intl Corp	A1	S&P	<5%	\$ 499,987
Northwestern University	A1+	S&P	<5%	499,959
Baker Hughes Inc	A1	S&P	<5%	499,959
General Electric Cap	A1+	S&P	<5%	997,416
Total commercial paper				\$ 2,497,321
Municipal bonds				
Wells Fargo Brokerage				
Cannon Falls ISD #252	AA+	S&P	<5%	\$ 187,758
St. Croix County, Wisconsin	Aa1	Moody's	<5%	403,609
Total municipal bonds				\$ 591,367
Agency securities				
Wells Fargo Brokerage				
FNMA	AAA	Fitch	5.41%	\$ 1,505,873
FHLB	Aaa	Moody's	12.93%	3,599,306
FAMCA	N/A	N/A	<5%	499,611
FHLMC	AAA	Fitch	<5%	1,498,652
Total agency securities				\$ 7,103,442
Bonds				
Small Business Administration				
Wells Fargo Brokerage			N/A	\$ 172,772
EE U.S. Savings Bonds	N/A	N/A	N/A	\$ 30,675

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Investment - Issuer	Credit Risk		Concentration Risk (%)	Carrying (Fair) Value
	Credit Rating	Rating Agency		
Escrow agent Mutual funds				
US Bank - U.S. Treasury money market funds	Aaa	Moody's	N/A	\$ 490,533
Negotiable certificates of deposit	N/A	N/A	N/A	\$ 16,664,355
Total Investments				<u>\$ 27,804,372</u>

<5% - Concentration is less than 5% of investments
N/A - Not Applicable

The following table represents the potential interest rate risk related to the County's investments using the segmented time distribution.

Investments	Fair Value	Investment Maturities (in Years)		
		Less Than 2	2 - 3	3 - 5
Commercial paper				
Mitsubishi Intl Corp	\$ 499,987	\$ 499,987	\$ -	\$ -
Northwestern University	499,959	499,959	-	-
Baker Hughes Inc	499,959	499,959	-	-
General Electric Cap	997,416	997,416	-	-
Total commercial paper	<u>\$ 2,497,321</u>	<u>\$ 2,497,321</u>	<u>\$ -</u>	<u>\$ -</u>
Municipal bonds				
Cannon Falls ISD #252	\$ 187,758	\$ 187,758	\$ -	\$ -
St. Croix County, Wisconsin	403,609	-	-	403,609
Total municipal bonds	<u>\$ 591,367</u>	<u>\$ 187,758</u>	<u>\$ -</u>	<u>\$ 403,609</u>
Agency securities				
FNMA	\$ 1,255,815	\$ 1,255,815	\$ -	\$ -
FHLB	3,599,306	3,599,306	-	-
FHLMC	1,498,652	1,498,652	-	-
FAMCA	499,611	499,611	-	-
FNMA	250,058	-	-	250,058
Total agency securities	<u>\$ 7,103,442</u>	<u>\$ 6,853,384</u>	<u>\$ -</u>	<u>\$ 250,058</u>

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Investments	Fair Value	Investment Maturities (in Years)		
		Less Than 2	2 - 3	3 - 5
Bonds				
Small Business Administration	\$ 172,772	\$ -	\$ -	\$ 172,772
EE U.S. Savings Bonds	30,675	-	-	30,675
Total bonds	\$ 203,447	\$ -	\$ -	\$ 203,447
Negotiable certificates of deposit	\$ 16,664,355	\$ 15,360,482	\$ 509,020	\$ 794,853
Total Investments Subject to Interest Rate Risk	\$ 27,059,932	\$ 24,898,945	\$ 509,020	\$ 1,651,967
Investments not subject to interest rate risk	744,440			
Total Investments	\$ 27,804,372			

2. Receivables

Receivables as of December 31, 2012, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 662,046	\$ -
Special assessments	84,701	21,104
Due from other governments	2,233,239	-
Accounts (net)	241,038	-
Interest	121,424	-
Loans receivable	885,000	816,032
Total Governmental Activities	\$ 4,227,448	\$ 837,136

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

Of the loans receivable, \$804,844 were made with funding through the State of Minnesota to help qualified businesses directly and adversely affected by the 2010 flood. Part of the loans may be written off if the business meets qualifications for a period of time, and part of the loans will be paid back by the businesses. The loans receivable balance includes \$757,099 in MIF flood loans not scheduled for collection in the subsequent year.

3. Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 7,954,135	\$ 366,577	\$ -	\$ 8,320,712
Construction in progress	6,143,520	2,055,392	6,136,946	2,061,966
Total capital assets not depreciated	<u>\$ 14,097,655</u>	<u>\$ 2,421,969</u>	<u>\$ 6,136,946</u>	<u>\$ 10,382,678</u>
Capital assets depreciated				
Land improvements	\$ 252,269	\$ -	\$ -	\$ 252,269
Buildings	37,358,412	-	-	37,358,412
Machinery, furniture, and equipment	11,747,888	8,430,930	491,576	19,687,242
Infrastructure	152,555,839	5,204,240	142,858	157,617,221
Total capital assets depreciated	<u>\$ 201,914,408</u>	<u>\$ 13,635,170</u>	<u>\$ 634,434</u>	<u>\$ 214,915,144</u>
Less: accumulated depreciation for				
Land improvements	\$ 72,015	\$ 9,657	\$ -	\$ 81,672
Buildings	14,488,027	913,537	-	15,401,564
Machinery, furniture, and equipment	7,866,386	1,272,183	482,967	8,655,602
Infrastructure	60,551,633	3,282,850	90,551	63,743,932
Total accumulated depreciation	<u>\$ 82,978,061</u>	<u>\$ 5,478,227</u>	<u>\$ 573,518</u>	<u>\$ 87,882,770</u>
Total capital assets depreciated, net	<u>\$ 118,936,347</u>	<u>\$ 8,156,943</u>	<u>\$ 60,916</u>	<u>\$ 127,032,374</u>
Capital Assets, Net	<u>\$ 133,034,002</u>	<u>\$ 10,578,912</u>	<u>\$ 6,197,862</u>	<u>\$ 137,415,052</u>

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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

Governmental Activities		
General government	\$	993,944
Public safety		651,063
Highways and streets, including depreciation of infrastructure assets		3,707,482
Human services		62,140
Health		1,180
Sanitation		53,548
Culture/recreation		8,870
Total Depreciation Expense - Governmental Activities	\$	5,478,227

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2012, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Health and Human Services	\$ 5,020
Road and Bridge	General	4,568
Road and Bridge	Debt Service	3,031,402
Total Due To/From Other Funds		\$ 3,040,990

These balances reflect the interfund goods, services, and bond proceeds provided and not paid at year-end but expected to be paid in the subsequent year.

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

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

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2012, consisted of the following:

Transfers to General Fund from Road and Bridge Fund	\$ 8,544	Cannon Valley Trail
Transfers to General Fund from Health and Human Services Fund	7,500	Time on PH projects
Transfers to Road and Bridge Fund from General Fund	3,805	OEM training drills
Transfers to Road and Bridge Fund from General Fund	605,128	Capital expenditures
Transfers to Health and Human Services Fund from General Fund	37,291	Capital expenditures
	4,590	OEM training drills
	57,868	Building project costs
	34,898	Software license/maintenance
	1,967	Termination payments
Transfers to Economic Development Authority Fund from General Fund	10,000	1916 tax incentives
Transfers to Waste Management Fund from General Fund	1,085	OEM training drills
	<u>\$ 772,676</u>	
Total Interfund Transfers	<u>\$ 772,676</u>	

C. Liabilities

1. Payables

Payables at December 31, 2012, were as follows:

	<u>Governmental Activities</u>
Accounts	\$ 859,276
Salaries	1,183,825
Contracts	123,572
Due to other governments	459,748
	<u>459,748</u>
Total Payables	<u>\$ 2,626,421</u>

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Capital Leases

The County has not entered into any capital lease agreements as of December 31, 2012.

3. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2012
General obligation bonds					
1997B G.O. Welch Village Revenue Bonds	2018	\$3,120 - \$8,095	1.58	\$ 143,750	\$ 43,317
1998, 2001, and 2003 G.O. Revenue Notes	2023	\$1,284 - \$7,804	0.00	175,670	142,670
2004A Courts Building Lease Revenue Refunding Bonds	2013	\$240,000 - \$660,000	2.00 - 3.80	4,905,000	660,000
2004A Landfill Closure Refunding Bonds	2013	\$140,000 - \$170,000	1.375 - 3.80	1,235,000	170,000
2005B Jail Refunding Bonds	2014	\$20,000 - \$1,860,000	3.60 - 3.625	3,460,000	3,310,000
2012A CIP Highway Project Bonds	2023	\$405,000 - \$1,720,000	0.5 - 1.85	5,065,000	5,065,000
2012B Taxable QECB Bonds	2027	\$1,295,000	3.45	<u>1,295,000</u>	<u>1,295,000</u>
Total General Obligation Bonds				<u>\$ 16,279,420</u>	<u>\$ 10,685,987</u>

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Debt Service Requirements

Debt service requirements at December 31, 2012, were as follows:

Year Ending December 31	General Obligation CIP Bonds		General Obligation Refunding Bonds	
	Principal	Interest	Principal	Interest
2013	\$ -	\$ 82,608	\$ 1,620,000	\$ 96,341
2014	99,615	95,012	1,860,000	33,712
2015	1,819,615	90,712	-	-
2016	504,615	85,197	-	-
2017	504,615	82,362	-	-
2018 - 2022	2,598,076	341,692	-	-
2023 - 2027	833,464	205,075	-	-
Total	\$ 6,360,000	\$ 982,658	\$ 3,480,000	\$ 130,053

Year Ending December 31	General Obligation Revenue Bonds		General Obligation Revenue Notes	
	Principal	Interest	Principal	Interest
2013	\$ 667,600	\$ 13,195	\$ 15,000	\$ -
2014	7,720	534	17,568	-
2015	7,843	412	17,568	-
2016	7,967	287	17,568	-
2017	12,187	193	17,568	-
2018 - 2022	-	-	54,840	-
2023	-	-	2,558	-
Total	\$ 703,317	\$ 14,621	\$ 142,670	\$ -

5. Deferred Amount on Refunding

The reacquisition price of refunding bonds exceeded the net carrying amount of old debt refunded in previous years by a total of \$338,942. This amount is being amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued.

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activity					
Long-Term Liabilities					
Bonds and notes payable					
G.O. bonds	\$ 4,555,000	\$ 6,360,000	\$ 1,075,000	\$ 9,840,000	\$ 1,620,000
G.O. revenue bonds	1,345,798	-	642,481	703,317	667,600
G.O. notes	156,071	-	13,401	142,670	15,000
Deferred amounts					
For issuance premiums	10,650	-	4,742	5,908	-
For issuance discounts	-	(36,099)	-	(36,099)	-
On refunding	(57,532)	-	(34,102)	(23,430)	-
Total bonds and notes payable	\$ 6,009,987	\$ 6,323,901	\$ 1,701,522	\$ 10,632,366	\$ 2,302,600
Closure and postclosure care	994,037	-	22,091	971,946	-
Compensated absences	4,118,397	1,875,466	1,742,959	4,250,904	1,785,380
Governmental Activity Long-Term Liabilities	<u>\$ 11,122,421</u>	<u>\$ 8,199,367</u>	<u>\$ 3,466,572</u>	<u>\$ 15,855,216</u>	<u>\$ 4,087,980</u>

7. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. The County officially closed the landfill on December 20, 1996. The \$971,946 landfill closure and postclosure care liability at December 31, 2012, is based on what it would cost to perform all closure and postclosure care in 2012. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. Not included in the above liability are \$802,615 of estimated contingency action costs which may be incurred.

The County is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The Board is in compliance with these requirements and, at December 31, 2012, investments of \$219,667 are held for these purposes. These are reported as restricted assets on the balance sheet.

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

7. Landfill Closure and Postclosure Care Costs (Continued)

Because the amount in trust is considerably smaller than the estimated postclosure care and contingency costs, the state has required Goodhue County to obtain a letter of credit for \$1,870,000 to ensure financing is available, if needed.

D. Fund Balance

Nonspendable, Restricted, Committed, and Assigned Fund Balances

Fund balances of the governmental funds were designated as follows at December 31, 2012.

<u>Nonspendable</u>	<u>General</u>	<u>Road and Bridge</u>	<u>Health and Human Services</u>	<u>Waste Management Fund</u>	<u>Economic Development Authority</u>	<u>Debt Services</u>
Prepaid items	\$ 207,231	\$ 4,125	\$ 10,355	\$ 15	\$ -	\$ -
Long-term loans/notes receivable	-	-	-	-	391,318	-
Inventories	-	442,522	-	-	-	-
Total Nonspendable Fund Balance	\$ 207,231	\$ 446,647	\$ 10,355	\$ 15	\$ 391,318	\$ -
<u>Restricted</u>						
Unclaimed funds	\$ 1,354	\$ -	\$ -	\$ -	\$ -	\$ -
Gravel pit postclosure	104,415	-	-	-	-	-
Law library	27,514	-	-	-	-	-
Attorney's forfeiture activities	16,346	-	-	-	-	-
Attorney's victim assistance	3,329	-	-	-	-	-
Recorder's technology equipment	194,911	-	-	-	-	-
Recorder's compliance fund	160,170	-	-	-	-	-
Veterans transportation	8,767	-	-	-	-	-
Sheriff's forfeiture activities	23,028	-	-	-	-	-
Sheriff's counteract	4,895	-	-	-	-	-
Sheriff's K-9 donations	25	-	-	-	-	-
Gun permit activities	38,251	-	-	-	-	-
Sheriff's contingency	5,872	-	-	-	-	-
E-911	251,165	-	-	-	-	-
Correction service fee	16,742	-	-	-	-	-
Local correctional fees	65,004	-	-	-	-	-
NPP funds	143,039	-	-	-	-	-
County ditch #1	2,853	-	-	-	-	-
Individual sewage treatment systems	56,717	-	-	-	-	-
Bonded highway construction projects	-	3,031,402	-	-	-	-
Landfill closure/postclosure	-	-	-	219,667	-	-
EDA loan program (1998 IHP)	-	-	-	-	57,320	-
EDA loan program (2010 MIF)	-	-	-	-	40,899	-
Debt service	-	-	-	-	-	490,533
Total Restricted Fund Balance	\$ 1,124,397	\$ 3,031,402	\$ -	\$ 219,667	\$ 98,219	\$ 490,533

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

D. Fund Balance

Nonspendable, Restricted, Committed, and Assigned Fund Balances (Continued)

Committed	General	Road and Bridge	Health and Human Services	Waste Management Fund	Economic Development Authority	Debt Services
Petty cash and change funds	\$ 1,375	\$ 50	\$ 550	\$ 75	\$ -	\$ -
Debt service	-	-	-	-	-	4,290,890
Economic development	-	-	-	-	45,419	-
Land use/environmental ordinance	584,943	-	-	-	-	-
Employee wellness program	3,623	-	-	-	-	-
Driver Awareness Program	16,279	-	-	-	-	-
Railroad Authority	2,680	-	-	-	-	-
Compensated absences	1,206,442	-	-	-	-	-
27th payroll (2015)	1,000,000	-	-	-	-	-
Tax court settlements	250,000	-	-	-	-	-
Natural, technological, human-caused hazards	1,000,000	-	-	-	-	-
Xcel stabilization fluctuations	300,000	-	-	-	-	-
Capital equipment/projects	1,256,101	-	-	69,100	-	-
Byllesby Dam	130,743	-	-	-	-	-
Byllesby Park and Trail	-	163,199	-	-	-	-
Health (home health care sale)	456,000	-	-	-	-	-
Health (SCHA distribution)	-	-	108,629	-	-	-
Out-of-home placement budget deficits	-	-	337,500	-	-	-
TH 52 development and construction	-	1,276,946	-	-	-	-
Total Committed Fund Balance	<u>\$ 6,208,186</u>	<u>\$ 1,440,195</u>	<u>\$ 446,679</u>	<u>\$ 69,175</u>	<u>\$ 45,419</u>	<u>\$ 4,290,890</u>
<u>Assigned</u>						
Buildings and grounds	\$ 20,658	\$ -	\$ -	\$ -	\$ -	\$ -
Employee training and development	56,405	-	-	-	-	-
Motor pool	15,429	-	-	-	-	-
Inmate improvement	16,873	-	-	-	-	-
County program aid contingency	1,326,881	-	-	-	-	-
Building contingencies	1,000,000	-	-	-	-	-
Township turnbacks	-	13,364	-	-	-	-
e-Document Compass/Onbase CM	-	-	305,000	-	-	-
Potential state/federal funding cuts	-	-	250,000	-	-	-
Technology improvements	-	-	150,000	-	-	-
Subsequent year's budgeted expenditures	-	3,519,834	4,301,986	234,446	-	-
Total Assigned Fund Balance	<u>\$ 2,436,246</u>	<u>\$ 3,533,198</u>	<u>\$ 5,006,986</u>	<u>\$ 234,446</u>	<u>\$ -</u>	<u>\$ -</u>

**GOODHUE COUNTY
RED WING, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Goodhue 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.

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. All new members must participate in the Coordinated Plan, and benefits vest after three years of credited service (five years for those first eligible for membership after June 30, 2010).

All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute. Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

**GOODHUE COUNTY
RED WING, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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 year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For all General Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Public Employees Police and Fire Fund members and Public Employees Correctional Fund members, and either 65 or 66 (depending on date hired) for General Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans (Continued)

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2012:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	14.40
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2012, 2011, and 2010, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
General Employees Retirement Fund	\$ 1,001,424	\$ 987,571	\$ 931,862
Public Employees Police and Fire Fund	384,608	378,581	361,426
Public Employees Correctional Fund	213,440	207,228	206,070

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

4. Employee Retirement Systems and Pension Plans (Continued)

B. Defined Contribution Plan

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

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

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2012, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 4,267	\$ 4,267
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

**GOODHUE COUNTY
RED WING, 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 or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For 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 \$460,000 per claim in 2012. 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.

B. Contingent Liabilities

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

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

5. Summary of Significant Contingencies and Other Items (Continued)

C. Joint Ventures

Goodhue County, in conjunction with other governmental entities has formed the joint ventures listed below:

Family Services Collaborative

The Goodhue County Family Services Collaborative was established in 1999 under the authority of Minn. Stat. §§ 471.59 and 124D.23. The Collaborative includes Goodhue County, Goodhue County Education District, Cannon Falls School District, and Three Rivers Community Action Council. The purpose of the Collaborative is to provide culturally appropriate programs and services to children and families, prevent children from developing more severe disabilities, and provide for the safety and security of the community and its children.

Control of the Collaborative is vested in a seven-member governing board appointed by the member parties. The Goodhue County Health and Human Services Department acts as fiscal agent for the Collaborative. The Collaborative is financed by state and federal grants and contributions from participating members.

The Collaborative was audited by the Office of the Minnesota State Auditor for 2010.

South Country Health Alliance

South Country Health Alliance (SCHA) was created by a joint powers agreement between Brown, Dodge, Freeborn, Goodhue, Kanabec, Mower, Sibley, Steele, Wabasha, and Waseca Counties on July 24, 1998, under Minn. Stat. § 471.59. Mower County has since withdrawn. In 2007, Cass, Crow Wing, Morrison, Todd, and Wadena Counties joined in the joint venture. Cass, Crow Wing, and Freeborn Counties voted to withdraw as of December 31, 2010. The agreement was in accordance with Minn. Stat. § 256B.692, which allows the formation of a Board of Directors to operate, control, and manage all matters concerning the participating counties' health care functions, referred to as county-based purchasing.

The purpose of the SCHA is to improve the social and health outcomes of its clients and all citizens of its member counties by better coordinating social service, public health and medical services, and promoting the achievement of public health goals. The SCHA is authorized to provide prepaid comprehensive health maintenance services to persons enrolled under Medicaid and General Assistance Medical Care in each of the member counties.

**GOODHUE COUNTY
RED WING, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

South Country Health Alliance (Continued)

Each member county has an explicit and measurable right to its share of the total capital surplus of the SCHA. Gains and losses are allocated annually to all members based on the percentage of their utilization. The County's equity interest in the SCHA at December 31, 2012, was \$2,345,613. The equity interest is reported as an investment in joint venture on the government-wide statement of net position. Changes in equity are reported in the government-wide statement of activities as human services expenses.

Complete financial statements for the SCHA may be obtained from Brian V. Hicks, Chief Financial Officer SCHA, 2300 Park Drive, Suite 100, Owatonna, Minnesota 55060.

Southeastern Minnesota Multi-County HRA

Goodhue County and other regional counties have formed the Southeastern Minnesota Multi-County Housing and Redevelopment Authority (HRA) for the purposes of providing housing and redevelopment services to Southeastern Minnesota counties. The governing body consists of an eight-member Board of Commissioners. Two Commissioners were appointed by each of the County Boards. The HRA adopts its own budget.

Complete financial statements for the HRA can be obtained at 134 East Second Street, Wabasha, Minnesota 55981.

D. Jointly-Governed Organizations

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

Minnesota Counties Computer Cooperative

The Minnesota Counties Computer Cooperative was established to provide computer programming to member counties. During the year, Goodhue County paid \$120,012 to the Cooperative.

**GOODHUE COUNTY
RED WING, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

Region One - Southeast Minnesota Homeland Security Emergency Management Organization

The Region One - Southeast Minnesota Security Emergency Management Organization (SERHSEM) was established to regionally coordinate efforts to better respond to emergencies and natural or other disasters within the SERHSEM region. During the year, Goodhue County did not make any payments to the SERHSEM.

Southeast Minnesota Narcotics and Gang Task Force

The Southeast Minnesota Narcotics and Gang Task Force provides drug investigation services for member organizations. During the year, Goodhue County paid \$6,000 to the Task Force.

Southeast Minnesota Regional Radio Board

The Southeast Minnesota Regional Radio Board serves to provide regional administration of enhancement to the Allied Radio Matrix for Emergency Response (ARMER) system owned and operated by the State of Minnesota and enhance and improve interoperable public safety communications. During the year, Goodhue County paid \$1,000 to the Radio Board.

Southeast Minnesota Water Resources Board

Dodge, Fillmore, Goodhue, Houston, Mower, Olmsted, Rice, Wabasha, and Winona Counties have formed the Southeast Minnesota Water Resources Board. The purpose of this joint powers board is to receive and expend state and nonprofit grants and other related funds for the purpose of comprehensive water management planning. The governing body consists of 18 members. Two Commissioners were appointed from each of the participating County Boards. Olmsted County acts as the fiscal agent. Complete financial statements for the Water Resources Board can be obtained at P. O. Box 5838, Winona, Minnesota 55987.

Southeastern Minnesota Libraries Cooperative (SELCO)

The Southeastern Minnesota Libraries Cooperative provides library services within the County. During the year, the County contributed \$436,452 to SELCO.

**GOODHUE COUNTY
RED WING, MINNESOTA**

5. Summary of Significant Contingencies and Other Items (Continued)

E. Debt Obligation Contingency

The Southeast Minnesota Multi-County Housing and Redevelopment Authority (HRA) issued \$3,360,000 Housing Development Revenue Bonds (Goodhue County, Minnesota General Obligation - Goodhue County Apartment Projects), Series 1999B, on August 19, 1999. The purpose of the issuance was to provide funds to undertake housing development projects and to acquire and construct multi-family rental housing for the purpose of providing housing for elderly persons and for persons and families of low and moderate income in accordance with Minn. Stat. § 469.034, subd. 2.

The principal and interest on the bonds are payable primarily from revenues from operations and tax increments resulting from increases in valuation of real property in Tax Increment Financing District 1-3. In the event of a deficiency, the HRA has pledged to levy its special benefit tax. Should these revenues fail to provide sufficient revenue for payment of principal and interest on the debt issue, the full faith and credit of Goodhue County is irrevocably pledged for payment of the bond.

F. County-Wide Individual Sewage Treatment Systems (ISTS) and Well Loan Program

The County entered into an agreement with the Minnesota Department of Agriculture and a local lending institution to jointly administer a loan program to individuals to finance the ISTS. While the County is not liable for repayment of the loans in any manner, it does have certain responsibilities under the agreement.

Loan activity for 2012 and prior years is:

	<u>Prior Years</u>	<u>During 2012</u>
Number of loans made	50	2
Loans outstanding - January 1	\$ -	\$ 89,017
Loans made	430,979	22,200
Payments made on loans	<u>(341,962)</u>	<u>(31,061)</u>
Loans outstanding - December 31	<u>\$ 89,017</u>	<u>\$ 80,156</u>

**GOODHUE COUNTY
RED WING, MINNESOTA**

6. Belle Creek Watershed Disclosures

A. Summary of Significant Accounting Policies

In addition to those identified in Note 1, the County's discretely presented component unit has the following significant accounting policies.

Reporting Entity

The Belle Creek Watershed District is governed by a three-member Board of Managers who are appointed by the County Board.

Because of the significance of their financial relationship, Goodhue County considers this entity a major component unit.

Basis of Presentation

The District does not prepare separate financial statements.

B. Detailed Notes on the General Fund

Deposits

At December 31, 2012, the District's deposits were \$243,110.

The District is authorized by Minn. Stat. §§ 118.02 and 118.04 to designate a depository for public funds and to invest in certificates of deposit. All District deposits are required by Minn. Stat. § 118.03 to 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 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 that is not owned or controlled by the financial institution furnishing the collateral.

**GOODHUE COUNTY
RED WING, MINNESOTA**

6. Belle Creek Watershed Disclosures

B. Detailed Notes on the General Fund (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a financial institution failure, the District's deposits may not be returned to it. As of December 31, 2012, the District's deposits were not exposed to custodial credit risk.

Capital Assets

The District's capital asset activity for the year ended December 31, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 378,550	\$ -	\$ -	\$ 378,550

REQUIRED SUPPLEMENTARY INFORMATION

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**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 16,282,269	\$ 16,282,269	\$ 16,443,340	\$ 161,071
Special assessments	-	-	16,644	16,644
Licenses and permits	148,765	148,765	251,295	102,530
Intergovernmental	2,353,905	2,353,905	3,940,194	1,586,289
Charges for services	1,621,299	1,621,299	1,970,322	349,023
Fines and forfeits	9,700	9,700	20,390	10,690
Gifts and contributions	18,000	33,000	60,553	27,553
Investment earnings	240,800	240,800	210,180	(30,620)
Miscellaneous	1,319,150	1,319,150	1,361,940	42,790
Total Revenues	\$ 21,993,888	\$ 22,008,888	\$ 24,274,858	\$ 2,265,970
Expenditures				
Current				
General government				
Commissioners	\$ 265,460	\$ 265,460	\$ 256,773	\$ 8,687
Courts	106,500	106,500	102,324	4,176
County administration	372,405	372,405	370,773	1,632
County auditor-treasurer	625,612	625,612	628,269	(2,657)
County assessor	847,118	847,118	841,984	5,134
Elections	85,576	85,576	69,999	15,577
Data processing	854,791	886,605	767,514	119,091
Personnel	317,791	318,116	317,409	707
Attorney	1,612,943	1,595,943	1,597,389	(1,446)
Law library	94,450	94,450	81,164	13,286
Recorder	742,938	742,938	654,271	88,667
Surveyor	294,071	294,071	279,854	14,217
GIS	203,505	203,505	190,667	12,838
Building permits	296,619	296,619	295,220	1,399
Planning and zoning	310,386	310,386	316,469	(6,083)
Environmental health	182,817	182,817	185,794	(2,977)
Buildings and plant	1,149,437	1,169,437	1,302,935	(133,498)
Veterans service officer	234,386	234,386	343,945	(109,559)
Other general government	537,249	537,249	639,783	(102,534)
Total general government	\$ 9,134,054	\$ 9,169,193	\$ 9,242,536	\$ (73,343)

**GOODHUE COUNTY
RED WING, MINNESOTA**

*EXHIBIT A-1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 4,492,414	\$ 4,492,414	\$ 5,089,275	\$ (596,861)
Sheriff - seasonal	145,791	145,791	169,020	(23,229)
Emergency management	225,922	225,922	258,938	(33,016)
Coroner	95,728	95,728	95,174	554
E-911 system	926,059	871,315	892,765	(21,450)
Adult detention center	4,134,785	4,231,175	4,426,109	(194,934)
Court services	1,006,105	1,006,105	945,748	60,357
Family court services	-	-	-	-
Total public safety	\$ 11,026,804	\$ 11,068,450	\$ 11,877,029	\$ (808,579)
Sanitation				
Individual septic treatment systems	\$ -	\$ -	\$ 22,200	\$ (22,200)
Culture and recreation				
Historical society	\$ 92,000	\$ 92,000	\$ 92,000	\$ -
Regional library	436,452	436,452	436,452	-
Byllesby Dam	15,900	15,900	-	15,900
Other culture and recreation	37,344	37,344	34,720	2,624
Total culture and recreation	\$ 581,696	\$ 581,696	\$ 563,172	\$ 18,524
Conservation of natural resources				
County extension	\$ 152,274	\$ 152,274	\$ 164,304	\$ (12,030)
Soil and water conservation	499,000	499,000	500,241	(1,241)
Fairs	25,000	25,000	25,000	-
Total conservation of natural resources	\$ 676,274	\$ 676,274	\$ 689,545	\$ (13,271)
Economic development				
Regional Railroad Authority	\$ 3,500	\$ 3,500	\$ 4,375	\$ (875)
Debt service				
Principal	\$ 13,401	\$ 13,401	\$ 13,401	\$ -
Bond issuance costs	-	-	24,934	(24,934)
Total debt service	\$ 13,401	\$ 13,401	\$ 38,335	\$ (24,934)
Total Expenditures	\$ 21,435,729	\$ 21,512,514	\$ 22,437,192	\$ (924,678)

**GOODHUE COUNTY
RED WING, MINNESOTA**

*EXHIBIT A-1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<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	\$ 558,159	\$ 496,374	\$ 1,837,666	\$ 1,341,292
Other Financing Sources (Uses)				
Transfers in	\$ 16,044	\$ 16,044	\$ 16,044	\$ -
Transfers out	(872,882)	(995,032)	(756,632)	238,400
Bonds issued	-	-	1,295,000	1,295,000
Discounts on bonds issued	-	-	(11,331)	(11,331)
Proceeds from sale of capital assets	-	-	5,067	5,067
Total Other Financing Sources (Uses)	\$ (856,838)	\$ (978,988)	\$ 548,148	\$ 1,527,136
Net Change in Fund Balance	\$ (298,679)	\$ (482,614)	\$ 2,385,814	\$ 2,868,428
Fund Balance - January 1	17,849,752	17,849,752	17,849,752	-
Fund Balance - December 31	\$ 17,551,073	\$ 17,367,138	\$ 20,235,566	\$ 2,868,428

**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 3,663,161	\$ 3,663,161	\$ 3,715,228	\$ 52,067
Licenses and permits	6,200	6,200	10,120	3,920
Intergovernmental	6,759,458	6,759,458	7,790,447	1,030,989
Charges for services	8,800	8,800	10,926	2,126
Miscellaneous	27,000	27,000	153,948	126,948
Total Revenues	\$ 10,464,619	\$ 10,464,619	\$ 11,680,669	\$ 1,216,050
Expenditures				
Current				
Highways and streets				
Administration	\$ 419,551	\$ 419,551	\$ 713,217	\$ (293,666)
Maintenance	2,751,344	2,751,344	2,905,038	(153,694)
Construction	9,701,306	9,881,306	8,947,520	933,786
Equipment maintenance and shop	1,186,145	1,293,295	1,176,842	116,453
Total highways and streets	\$ 14,058,346	\$ 14,345,496	\$ 13,742,617	\$ 602,879
Culture and recreation				
Parks	17,855	17,855	19,230	(1,375)
Intergovernmental				
Highways and streets	375,874	375,874	451,603	(75,729)
Debt service				
Bond issuance costs	-	-	37,643	(37,643)
Total Expenditures	\$ 14,452,075	\$ 14,739,225	\$ 14,251,093	\$ 488,132
Excess of Revenues Over (Under)				
Expenditures	\$ (3,987,456)	\$ (4,274,606)	\$ (2,570,424)	\$ 1,704,182
Other Financing Sources (Uses)				
Transfers in	\$ 548,000	\$ 635,150	\$ 608,933	\$ (26,217)
Transfers out	(8,544)	(8,544)	(8,544)	-
Bonds issued	3,448,000	3,448,000	5,065,000	1,617,000
Discount on bonds issued	-	-	(24,768)	(24,768)
Total Other Financing Sources (Uses)	\$ 3,987,456	\$ 4,074,606	\$ 5,640,621	\$ 1,566,015
Net Change in Fund Balance	\$ -	\$ (200,000)	\$ 3,070,197	\$ 3,270,197
Fund Balance - January 1	5,404,407	5,404,407	5,404,407	-
Increase (decrease) in inventories	-	-	(23,162)	(23,162)
Fund Balance - December 31	\$ 5,404,407	\$ 5,204,407	\$ 8,451,442	\$ 3,247,035

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

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**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
HEALTH AND HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 4,412,225	\$ 4,412,225	\$ 4,437,271	\$ 25,046
Intergovernmental	5,950,815	5,950,815	6,195,771	244,956
Charges for services	1,746,144	1,746,144	1,644,040	(102,104)
Miscellaneous	392,811	392,811	421,790	28,979
Total Revenues	\$ 12,501,995	\$ 12,501,995	\$ 12,698,872	\$ 196,877
Expenditures				
Current				
Human services				
Income maintenance	\$ 3,175,643	\$ 3,175,643	\$ 3,297,769	\$ (122,126)
Social services	7,037,410	7,037,410	6,942,062	95,348
Total human services	\$ 10,213,053	\$ 10,213,053	\$ 10,239,831	\$ (26,778)
Health				
Quality assurance - health services	\$ 1,039,756	\$ 1,039,756	\$ 1,046,010	\$ (6,254)
Healthy communities/behaviors	888,582	905,717	893,072	12,645
Disaster preparedness	27,111	38,108	43,988	(5,880)
Infectious disease	114,542	114,542	106,757	7,785
Health services - administration	558,333	558,333	542,135	16,198
Total health	\$ 2,628,324	\$ 2,656,456	\$ 2,631,962	\$ 24,494
Total Expenditures	\$ 12,841,377	\$ 12,869,509	\$ 12,871,793	\$ (2,284)
Excess of Revenues Over (Under)				
Expenditures	\$ (339,382)	\$ (367,514)	\$ (172,921)	\$ 194,593
Other Financing Sources (Uses)				
Transfers in	\$ 314,882	\$ 314,882	\$ 136,614	\$ (178,268)
Transfers out	(7,500)	(7,500)	(7,500)	-
Total Other Financing Sources (Uses)	\$ 307,382	\$ 307,382	\$ 129,114	\$ (178,268)
Net Change in Fund Balance	\$ (32,000)	\$ (60,132)	\$ (43,807)	\$ 16,325
Fund Balance - January 1	5,507,827	5,507,827	5,507,827	-
Fund Balance - December 31	\$ 5,475,827	\$ 5,447,695	\$ 5,464,020	\$ 16,325

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
ECONOMIC DEVELOPMENT AUTHORITY SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 12,553	\$ 12,553	\$ 12,955	\$ 402
Intergovernmental	130	130	71,339	71,209
Miscellaneous	29,341	29,341	43,784	14,443
Total Revenues	\$ 42,024	\$ 42,024	\$ 128,078	\$ 86,054
Expenditures				
Current				
Economic development				
Community development	23,683	23,683	104,052	(80,369)
Excess of Revenues Over (Under) Expenditures	\$ 18,341	\$ 18,341	\$ 24,026	\$ 5,685
Other Financing Sources (Uses)				
Transfers in	10,000	10,000	10,000	-
Net Change in Fund Balance	\$ 28,341	\$ 28,341	\$ 34,026	\$ 5,685
Fund Balance - January 1	500,930	500,930	500,930	-
Fund Balance - December 31	\$ 529,271	\$ 529,271	\$ 534,956	\$ 5,685

**GOODHUE COUNTY
RED WING, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2012**

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and major special revenue funds. All annual appropriations lapse at fiscal year-end.

On or before mid-July of each year, all departments and agencies submit requests for appropriations to the County Administrator so that a budget can be prepared. On or before September 15, the proposed budget is presented to the County Board for review. The Board holds public hearings, and a final budget must be prepared and adopted no later than December 28.

The final budget is prepared by fund and department. During the calendar year, revisions that alter the budgeted revenues or expenditures of any fund must be approved by the Board of Commissioners. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level. During the year, supplemental budgetary appropriations were not considered significant.

2. Excess of Expenditures Over Budget

The following is a summary of the individual funds which had expenditures in excess of final budget for the year ended December 31, 2012.

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund	\$ 21,512,514	\$ 22,437,192	\$ (924,678)
Health and Human Services Fund	12,869,509	12,871,793	(2,284)
Economic Development Authority Fund	23,683	104,052	(80,369)

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SUPPLEMENTARY INFORMATION

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MAJOR FUND

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**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT B-1

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,015,866	\$ 2,015,866	\$ 2,026,521	\$ 10,655
Special assessments	10,404	10,404	8,239	(2,165)
Intergovernmental	20,964	20,964	27,223	6,259
Total Revenues	\$ 2,047,234	\$ 2,047,234	\$ 2,061,983	\$ 14,749
Expenditures				
Debt service				
Principal	\$ 1,717,481	\$ 1,717,481	\$ 1,717,481	\$ -
Interest	179,514	179,514	179,458	56
Administrative - fiscal charges	2,150	2,150	4,548	(2,398)
Total Expenditures	\$ 1,899,145	\$ 1,899,145	\$ 1,901,487	\$ (2,342)
Net Change in Fund Balance	\$ 148,089	\$ 148,089	\$ 160,496	\$ 12,407
Fund Balance - January 1	4,620,927	4,620,927	4,620,927	-
Fund Balance - December 31	\$ 4,769,016	\$ 4,769,016	\$ 4,781,423	\$ 12,407

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**GOODHUE COUNTY
RED WING, MINNESOTA**

NONMAJOR GOVERNMENTAL FUND

SPECIAL REVENUE FUND

Waste Management - to account for the financial activities of the waste management facility, the recycling center, and the household hazardous waste facility.

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**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT C-1

**BUDGETARY COMPARISON SCHEDULE
WASTE MANAGEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 303,529	\$ 303,529	\$ 305,147	\$ 1,618
Licenses and permits	7,300	7,300	7,585	285
Intergovernmental	122,425	122,425	123,707	1,282
Charges for services	63,800	63,800	73,164	9,364
Interest on investments	450	450	329	(121)
Miscellaneous	267,150	267,150	213,578	(53,572)
Total Revenues	\$ 764,654	\$ 764,654	\$ 723,510	\$ (41,144)
Expenditures				
Current				
Sanitation				
Solid waste	\$ 84,942	\$ 84,942	\$ 85,817	\$ (875)
Recycling	459,666	484,666	483,982	684
Hazardous waste	124,819	124,819	105,831	18,988
Landfill	151,727	186,727	155,669	31,058
Total Expenditures	\$ 821,154	\$ 881,154	\$ 831,299	\$ 49,855
Excess of Revenues Over (Under) Expenditures	\$ (56,500)	\$ (116,500)	\$ (107,789)	\$ 8,711
Other Financing Sources (Uses)				
Transfers in	-	35,000	1,085	(33,915)
Net Change in Fund Balance	\$ (56,500)	\$ (81,500)	\$ (106,704)	\$ (25,204)
Fund Balance - January 1	630,007	630,007	630,007	-
Fund Balance - December 31	\$ 573,507	\$ 548,507	\$ 523,303	\$ (25,204)

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**GOODHUE COUNTY
RED WING, MINNESOTA**

AGENCY FUNDS

Family Collaborative Fund - to account for grant money passed through to the Goodhue County Family Services Collaborative.

Taxes and Penalties Fund - to account for the collection and distribution of current and delinquent property taxes. This fund also accounts for refunds on abatements, court orders, and overpayments of real estate and personal property taxes.

Other Agency Fund - to account for collections made by the County on behalf of towns, cities, and the State of Minnesota.

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**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT D-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<u>FAMILY COLLABORATIVE FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 424,375	\$ 260,745	\$ 267,095	\$ 418,025
Due from other governments	34,234	180,425	165,679	48,980
Total Assets	\$ 458,609	\$ 441,170	\$ 432,774	\$ 467,005
<u>Liabilities</u>				
Due to other governments	\$ 458,609	\$ 441,170	\$ 432,774	\$ 467,005
 <u>TAXES AND PENALTIES FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,002,852	\$ 53,778,049	\$ 53,721,237	\$ 1,059,664
<u>Liabilities</u>				
Due to component unit	\$ 133	\$ 19,336	\$ 19,154	\$ 315
Due to other governments	1,002,719	53,758,713	53,702,083	1,059,349
Total Liabilities	\$ 1,002,852	\$ 53,778,049	\$ 53,721,237	\$ 1,059,664

**GOODHUE COUNTY
RED WING, MINNESOTA**

*EXHIBIT D-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<u>OTHER AGENCY FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 128,094	\$ 1,996,004	\$ 1,926,384	\$ 197,714
Accounts receivable	30,781	148,111	143,110	35,782
	\$ 158,875	\$ 2,144,115	\$ 2,069,494	\$ 233,496
<u>Liabilities</u>				
Due to other governments	\$ 158,875	\$ 2,144,115	\$ 2,069,494	\$ 233,496
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,555,321	\$ 56,034,798	\$ 55,914,716	\$ 1,675,403
Accounts receivable	30,781	148,111	143,110	35,782
Due from other governments	34,234	180,425	165,679	48,980
	\$ 1,620,336	\$ 56,363,334	\$ 56,223,505	\$ 1,760,165
<u>Liabilities</u>				
Due to component unit	\$ 133	\$ 19,336	\$ 19,154	\$ 315
Due to other governments	1,620,203	56,343,998	56,204,351	1,759,850
	\$ 1,620,336	\$ 56,363,334	\$ 56,223,505	\$ 1,760,165

BELLE CREEK WATERSHED COMPONENT UNIT

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**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT E-1

**STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET
BELLE CREEK WATERSHED COMPONENT UNIT
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General Fund	Reconciliation	Statement of Net Position
<u>Assets</u>			
Cash and pooled investments	\$ 243,110	\$ -	\$ 243,110
Accrued interest receivable	260	-	260
Due from other governments	281	-	281
Due from primary government	315	-	315
Capital assets			
Not depreciable - land	-	378,550	378,550
Total Assets	\$ 243,966	\$ 378,550	\$ 622,516
<u>Liabilities</u>			
Due to other governments	\$ 120	\$ -	\$ 120
<u>Fund Balance/Net Position</u>			
Fund Balance			
Unassigned	243,846	(243,846)	
Total Liabilities and Fund Balance	\$ 243,966		
Net Position			
Net investment in capital assets		\$ 378,550	\$ 378,550
Unrestricted		243,846	243,846
Total Net Position		\$ 622,396	\$ 622,396
Reconciliation of the General Fund Balance to Net Position			
Fund Balance - Governmental Fund			\$ 243,846
Capital assets are reported in the Statement of Net Position but not on the fund balance sheet.			378,550
Net Position - Governmental Activities			\$ 622,396

**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT E-2

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
BELLE CREEK WATERSHED COMPONENT UNIT
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General Fund	Reconciliation	Statement of Activities
Revenues			
Taxes	\$ 19,336	\$ -	\$ 19,336
Intergovernmental	564	-	564
Investment earnings	2,682	-	2,682
Miscellaneous	220	-	220
Total Revenues	\$ 22,802	\$ -	\$ 22,802
Expenditures/Expenses			
Current			
General government	16,589	-	16,589
Excess of Revenues Over (Under)			
Expenditures/Expenses	\$ 6,213	\$ -	\$ 6,213
Fund Balance/Net Position - January 1	237,633	378,550	616,183
Fund Balance/Net Position - December 31	\$ 243,846	\$ 378,550	\$ 622,396

The only difference between the modified and full accrual for the District is capital assets consisting of nondepreciable land.

OTHER SCHEDULES

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**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT F-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Shared Revenue

State

Highway users tax	\$	6,767,868
PERA rate reimbursement		61,078
Disparity reduction aid		29,144
Police aid		237,865
County program aid		1,326,881
Market value credit		276,429
Indian casino aid		60,778
Enhanced 911		127,808
		127,808

Total shared revenue **\$ 8,887,851**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	1,282,897
		1,282,897

Payments

Local

Local contributions	\$	117,451
Payments in lieu of taxes		229,942
		229,942

Total payments **\$ 347,393**

Grants

State

Minnesota Department/Board of		
Corrections	\$	262,237
Employment and Economic Development		431,554
Health		119,545
Human Services		1,546,072
Natural Resources		133,442
Public Safety		809,075
Veterans Affairs		58,477
Water and Soil Resources		126,407
Peace Officer Standards and Training Board		14,612
Pollution Control Agency		6,116
Environmental Assistance		113,487
		113,487

Total state **\$ 3,621,024**

**GOODHUE COUNTY
RED WING, MINNESOTA**

***EXHIBIT F-1
(Continued)***

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Grants (Continued)

Federal

Department of	
Agriculture	\$ 392,035
Interior	12,187
Justice	24,703
Transportation	596,516
Health and Human Services	2,828,571
Homeland Security	155,504
	<hr/>

Total federal **\$ 4,009,516**

Total state and federal grants **\$ 7,630,540**

Total Intergovernmental Revenue **\$ 18,148,681**

**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT F-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 174,338
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	<u>206,126</u>
Total U.S. Department of Agriculture		<u>\$ 380,464</u>
U.S. Department of the Interior		
Direct Payments in Lieu of Taxes	15.226	<u>\$ 12,187</u>
U.S. Department of Justice		
Direct State Criminal Alien Assistance Program	16.606	\$ 22,114
Bulletproof Vest Partnership Program	16.607	<u>2,589</u>
Total U.S. Department of Justice		<u>\$ 24,703</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 571,343
Passed Through Minnesota Department of Public Safety Highway Safety Cluster		
State and Community Highway Safety	20.600	33,364
Occupant Protection Incentive Grants	20.602	1,719
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	<u>13,633</u>
Total U.S. Department of Transportation		<u>\$ 620,059</u>
U.S. Department of Health and Human Services		
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	\$ 7,487
Passed Through Minnesota Department of Health Public Health Emergency Preparedness	93.069	28,049
Universal Newborn Hearing Screening	93.251	225
Immunization Cooperative Agreements	93.268	300
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	150
Temporary Assistance for Needy Families (TANF) Cluster		
Temporary Assistance for Needy Families	93.558	47,462
(Total Temporary Assistance for Needy Families 93.558 \$390,910)		
Maternal and Child Health Services Block Grant to the States	93.994	40,377

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

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**GOODHUE COUNTY
RED WING, MINNESOTA**

**EXHIBIT F-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services (Continued)		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families TANF Cluster	93.556	3,566
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$390,910)	93.558	343,448
Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program - ARRA	93.714	29,894
Child Support Enforcement	93.563	918,964
Refugee and Entrant Assistance - State-Administered Programs	93.566	522
Child Care and Development Block Grant	93.575	21,620
Stephanie Tubbs Jones Child Welfare Services Program	93.645	892
Foster Care - Title IV-E	93.658	262,562
Social Services Block Grant	93.667	225,453
Chafee Foster Care Independence Program	93.674	5,853
Children's Health Insurance Program	93.767	3,000
Medical Assistance Program	93.778	888,163
 Passed Through Minnesota Secretary of State		
Voting Access for Individuals with Disabilities - Grants to States	93.617	9,551
 Total U.S. Department of Health and Human Services		\$ 2,837,538
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	\$ 14,482
 Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	51,459
Emergency Management Performance Grants	97.042	56,064
 Passed Through Southeastern Minnesota Regional Radio Board		
Interoperable Emergency Communications	97.055	728
Homeland Security Grant Program	97.067	32,480
 Total U.S. Department of Homeland Security		\$ 155,213
 Total Federal Awards		\$ 4,030,164

**GOODHUE COUNTY
RED WING, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Goodhue County under programs of the federal government for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Goodhue County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Goodhue 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 the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowed or are limited as reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

4. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Highway Safety Cluster	\$	35,083
Temporary Assistance for Needy Families Cluster		420,804

**GOODHUE COUNTY
RED WING, MINNESOTA**

5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue (Exhibit F-1)	\$ 4,009,516
Grants deferred in 2011 and recognized in 2012	
Bulletproof Vest Partnership Program (CFDA #16.607)	(11,571)
Assistance to Rural Law Enforcement - ARRA (CFDA #16.810)	(271)
Temporary Assistance for Needy Families (TANF) (CFDA #93.558)	(29,486)
Grants deferred in 2012	
Highway Planning and Construction (CFDA #20.205)	23,543
Refugee and Entrant Assistance - State-Administered Programs (CFDA #93.566)	1
Child Care and Development Block Grant (CFDA #93.575)	716
Foster Care - Title IV-E (CFDA #93.658)	8,272
Medical Assistance Program (CFDA #93.778)	249
Emergency Management Performance Grants (CFDA #97.042)	29,195
	<hr/>
Expenditures per Schedule of Expenditures of Federal Awards (Exhibit F-2)	\$ 4,030,164

6. Subrecipients

During 2012, Goodhue County did not pass any federal money to subrecipients.

7. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.

**Other Information
Section**

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**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT G-1

TAX CAPACITY, TAX RATES, LEVIES, AND PERCENTAGE OF COLLECTIONS

	2011		2012		2013	
	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)
Tax Capacity						
Real property	\$ 59,979,281		\$ 56,606,119		\$ 58,769,961	
Personal property	774,471		808,867		905,916	
Tax increment	(1,023,781)		(942,736)		(784,517)	
Net Tax Capacity	\$ 59,729,971		\$ 56,472,250		\$ 58,891,360	
Taxes Levied for County Purposes						
General	\$ 15,545,392	27.036	\$ 16,208,518	29.755	\$ 15,784,184	27.800
Road and Bridge	3,688,895	6.198	3,663,854	6.512	3,622,414	6.172
Health and Human Services	4,617,191	7.757	4,458,089	7.923	5,173,555	8.815
Economic Development Authority	14,950	0.025	12,683	0.023	12,650	0.022
Debt Service	2,013,000	3.371	2,036,830	3.607	2,023,796	3.436
Waste Management	307,230	0.516	306,884	0.545	320,059	0.545
Total Taxes Levied for County Purposes	\$ 26,186,658	44.903	\$ 26,686,858	48.365	\$ 26,936,658	46.790
Tax Capacity - Light and Power						
Transmission	\$ 45,188		\$ 46,010		\$ 54,446	
Distribution	6,252		6,364		7,512	
Total Tax Capacity - Light and Power	\$ 51,440		\$ 52,374		\$ 61,958	
Light and Power Tax Levies (distributed in accordance with Minn. Stat. § 273.40, as amended)						
Transmission	\$ 47,278		\$ 51,921		\$ 59,001	
Distribution	6,541		7,182		8,140	
Total Light and Power Tax Levies	\$ 53,819	104.625	\$ 59,103	112.847	\$ 67,141	108.366

(Unaudited)

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**GOODHUE COUNTY
RED WING, MINNESOTA**

*EXHIBIT G-1
(Continued)*

TAX CAPACITY, TAX RATES, LEVIES, AND PERCENTAGE OF COLLECTIONS

	2011		2012		2013	
	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)
Market Value - Light and Power						
Transmission	\$ 2,296,900		\$ 2,338,000		\$ 2,759,800	
Distribution	312,600		318,000		375,600	
Total Market Value - Light and Power	<u>\$ 2,609,500</u>		<u>\$ 2,656,000</u>		<u>\$ 3,135,400</u>	
Light and Power Tax Market Value Levies						
Transmission	\$ 3,978		\$ 4,610		\$ 5,269	
Distribution	541		627		717	
Total Light and Power Tax Market Value Levies	<u>\$ 4,519</u>	0.173	<u>\$ 5,237</u>	0.197	<u>\$ 5,986</u>	0.191
Market Value - State General Tax						
Transmission	\$ 45,188		\$ 46,010		\$ 54,446	
Distribution	6,252		6,364		7,512	
Total Market Value - State General Tax	<u>\$ 51,440</u>		<u>\$ 52,374</u>		<u>\$ 61,958</u>	
State General Tax Market Value Levies						
Transmission	\$ 22,162		\$ 23,511		\$ 28,597	
Distribution	3,066		3,252		3,946	
Total State General Tax Market Value Levies	<u>\$ 25,228</u>	49.043	<u>\$ 26,763</u>	51.100	<u>\$ 32,543</u>	52.523
Special Assessments						
Belle Creek Watershed Improvement Bonds	<u>\$ 10,000</u>	0.432	<u>\$ 20,000</u>	0.861	<u>\$ 20,000</u>	0.799
Percentage of Tax Collections for All Purposes	98.58%		99.02%			

(Unaudited)

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**GOODHUE COUNTY
RED WING, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

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

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **No**

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **No**

The major programs are:

Highway Planning and Construction	CFDA #20.205
Temporary Assistance for Needy Families Cluster	
Temporary Assistance for Needy Families	CFDA #93.558
ARRA - Emergency Contingency Fund for Temporary	
Assistance for Needy Families (TANF) State Program	CFDA #93.714
Medical Assistance Program	CFDA #93.778

The threshold for distinguishing between Types A and B programs was \$300,000.

Goodhue County qualified as a low-risk auditee? **Yes**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

08-3 Segregation of Duties - County Departments

Criteria: A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

Condition: Several of the County's departments that collect fees lack proper segregation of duties. These departments generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts. Specifically, we noted these issues in our review of receipting procedures in the Waste Management Department.

Context: Due to the limited number of office personnel within the County, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Goodhue County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

Effect: Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Cause: The County believes it is not cost-effective to hire qualified accounting staff in each small fee office in order to segregate duties.

Recommendation: We recommend that the County's elected officials and management be aware of the lack of segregation of duties of the accounting functions and, where possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff to the extent possible.

Client's Response:

Goodhue County continues to look for ways to improve upon the internal controls already in place in fee offices as well as those offices with limited personnel.

ITEM ARISING THIS YEAR

12-1 IFS-General Ledger System Security Controls

Criteria: Internal controls should provide adequate segregation of functions and responsibilities so no one person has incompatible duties that would permit the perpetration and concealment of material irregularities.

Condition: During our review of general ledger security access, we noted the individual assigned to the County user maintenance function is also involved in the County general ledger accounting functions.

Context: The duties assigned to the County general ledger user maintenance security function are incompatible with duties assigned to the general ledger accounting function because that individual has unlimited access to make changes to the accounting records.

Effect: Personnel assigned to the County user maintenance function should be segregated from personnel assigned general ledger accounting functions to ensure the integrity of the data stored in the County's information system.

Cause: The County was not aware of the capabilities of the user maintenance security function.

Recommendation: We recommend personnel assigned to the County user maintenance function be segregated from personnel assigned to the general ledger accounting functions.

Client's Response:

User Maintenance is now controlled by personnel within the IT Department to ensure this function is segregated from accounting personnel.

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

PREVIOUSLY REPORTED ITEM RESOLVED

Reporting - Review Process (11-1)

During our testing of controls over reporting for the County's Public Health Department Temporary Assistance for Needy Families Program, we did not find a documented review process of reports submitted to the Minnesota Department of Health by a supervisory-level individual independent of the individual who prepared the reports.

Resolution

The County has a documented review process of reports by a supervisory-level individual independent of the individual who prepares the reports.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

08-7 Safe Driving Class

Criteria: As stated in Minn. Stat. § 169.022, in part, “. . . Local authorities may adopt traffic regulations which are not in conflict with the provisions of this chapter; provided, that when any local ordinance regulating traffic covers the same subject for which a penalty is provided for in this chapter, then the penalty provided for violation of said local ordinance shall be identical with the penalty provided for in this chapter for the same offense.”

In 2009, the Minnesota Legislature enacted a new statute, Minn. Stat. § 169.999, to authorize the issuance of administrative citations and prescribe criteria for them. *See* 2009 Minn. Laws, ch. 158. Among other provisions, the statute states that a governing body resolution must be passed to authorize issuance of administrative citations. The resolution must bar peace officers from issuing administrative citations in violation of Minn. Stat. § 169.999. The statute specifies the offenses for which an administrative citation may be used. The authority requires the use of a uniform administrative citation prescribed by the Commissioner of Public Safety and specifies that the fine for an administrative violation must be \$60, two-thirds of which must be credited to the general revenue fund of the local unit of government, and one-third of which must be transferred to the Commissioner of Minnesota Management & Budget for deposit in the state’s General Fund. A local unit of government receiving administrative fine proceeds must use one-half of the funds for law enforcement purposes. Each local unit of government must follow these and other criteria specified in the new statute.

Condition: Goodhue County has established a Driver Awareness Class option in lieu of issuance or court filing of a state uniform traffic ticket. The County hands out a Driving Awareness Class brochure with “simpler” traffic tickets. Motorists who are given brochures are given the option of paying \$75 and attending a two-hour Driving Awareness Class in lieu of having their citations prosecuted.

Context: In a letter to State Representative Steve Smith on December 1, 2003, the Minnesota Attorney General specifically addressed the issue of a driver improvement course or clinic in lieu of a ticket or other penalty. After reviewing the state law, the Attorney General concluded: “All such programs, however, require that a *trial court* make the determination as to whether attendance at such a [driver’s] clinic is appropriate. We are aware of no express authority for local officials to create a *pretrial* diversion program.” (Emphasis is that of the Attorney General.)

The Minnesota Supreme Court has stated, “[a]s a creature of the state deriving its sovereignty from the state, the county should play a leadership role in carrying out legislative policy.” *Kasch v. Clearwater County*, 289 N.W. 2d 148, 152 (Minn. 1980), quoting *County of Freeborn v. Bryson*, 243 N.W. 2d 316, 321 (Minn. 1976).

Effect: The County’s Driver Awareness Class is unauthorized and in violation of Minn. Stat. § 169.022.

Cause: The County asserts that it disagrees with this finding.

Recommendation: We recommend the County comply with Minn. Stat. ch. 169, including Minn. Stat. § 169.999, or any subsequent legislation by not offering a Driver Awareness Class in lieu of issuance or court filing of a state uniform traffic ticket.

Client’s Response:

The Goodhue County Sheriff’s Office, the Goodhue County Attorney’s Office, and the Judges of the District Court in Goodhue County have reviewed our safe driving class program and the parameters under which it is held. Our conclusions differ from those reached in the State Auditor’s report, and we respectfully disagree with the report’s findings and recommendations.

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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
Goodhue County

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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Goodhue County, Minnesota, as of and for the year ended December 31, 2012, 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 6, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Goodhue 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 08-3 and 12-1, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Goodhue 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 Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the County has no tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that Goodhue County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as item 08-7. 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.

Other Matters

Goodhue County's responses to the internal control and legal compliance findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The County's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Political Subdivisions* 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 6, 2013

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REBECCA OTTO
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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
Goodhue County

Report on Compliance for Each Major Federal Program

We have audited Goodhue County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2012. Goodhue County's major federal programs are 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 the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Goodhue County's major federal programs 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Goodhue 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 each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Goodhue County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of Goodhue 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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 the 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

August 6, 2013

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR