

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

GOODHUE COUNTY
RED WING, MINNESOTA

YEAR ENDED DECEMBER 31, 2013

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, 2013



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

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**GOODHUE COUNTY
RED WING, MINNESOTA**

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RED WING, MINNESOTA**

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**GOODHUE COUNTY
RED WING, MINNESOTA**

**CURRENT ORGANIZATION CHART
2013**

			<u>Term Expires</u>
Elected Officers			
Commissioners			
Chair	Ronald Allen	District 1	January 2017
Vice Chair	Jim Bryant	District 4	January 2015
Board Member	Richard Samuelson	District 2	January 2017
Board Member	Dan Rechtzigel	District 3	January 2015
Board Member	Ted Seifert	District 5	January 2017
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	Lyman M. Robinson, Jr.		March 2018

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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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, Minnesota, as of and for the year ended December 31, 2013, 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, 2013, 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.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2013, the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which represent changes in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary 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 and other information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic

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

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 September 18, 2014, 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

September 18, 2014

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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, 2013

(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, 2013. We encourage readers to consider the information presented here in conjunction with the County's financial activity and performance.

HIGHLIGHTS

- On December 31, 2013, Goodhue County's total assets exceed liabilities and deferred inflows of resources by \$164,549,826, of which \$130,077,471 is the net investment in capital assets and \$2,110,746 is restricted to specific purposes. This leaves year-end unrestricted net position of \$32,361,609.
- Goodhue County's net position decreased by \$1,115,258 from current operations for the year ended December 31, 2013 (\$1.3 million decrease in total assets, \$2.6 million decrease in total liabilities, and an increase of \$2.4 million in deferred inflows of resources). The increase is the advance allotment from state aid for highway projects. Asset decreases can be attributed to utilization of restricted dollars for capital and highway projects.
- Overall program expenses for 2013 were \$53,231,285, an increase of \$7,563,744 (16.6 percent) from 2012. The largest area of increase was in highways and streets where construction in the County continues to be a high priority. Revenues increased by 2.9 percent, or \$1,475,075, during 2013. The largest area of increase can be found in operating grants and contributions. General revenues contributed \$29,752,050 towards program expenses, an increase of \$184,837 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 \$1,105,633 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 final loan under this program was issued in 2013.
- The County also continued with payments on the older debt issuances and reduced these liabilities by \$2,302,600 in 2013. The final levy for this older debt will take place in 2013 with a final payment of about \$1.86 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 and 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 off US Highway 52 in Cannon Falls and is opening in September 2014. This project is about complete, and detailed plans are being put together for a road to circle the southeast side of Cannon Falls. State funding contributes to the projects; however, the Board anticipates selling bonds in 2014 to complete the financing.
- 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 has accelerated the need for long-range facility planning. The Board has decided to move forward with a remodel of the County's Citizens Building. Plans are being finalized with bid specifications expected to be released in the fall of 2014 with a bond sale in the spring of 2015. Also included in these discussions are potential financing for garage space, roofs, and a fourth courtroom that appear to be projects for 2015 and beyond.
- At the end of 2013, the General Fund's unassigned fund balance was \$10,435,915, which represents approximately 44 percent of expenditures for the year (\$23,481,350). In 2012, the General Fund's unassigned fund balance was \$10,259,506, which was approximately 46 percent of expenditures for the year.
- 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. In June 2013, the County Board approved some changes to the County ordinance which would allow the mining of silica sand with certain restrictions and subject to a Conditional/Interim Use Permit. A moratorium on requesting any silica sand permits expired in March 2014.

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, liabilities, and deferred inflows of resources. The difference between assets, liabilities, and deferred inflows of resources 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 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, 2013, assets exceeded liabilities and deferred inflows of resources by \$164,549,826. The following table provides a summary of Goodhue County’s governmental net position which decreased \$1,115,258 from the previous year.

Table 1
Net Position

	Governmental Activities		
	2013	2012	\$ Change
Assets			
Current and other assets	\$ 44,871,454	\$ 47,089,502	\$ (2,218,048)
Capital assets	138,329,398	137,415,052	914,346
Total Assets	\$ 183,200,852	\$ 184,504,554	\$ (1,303,702)
Liabilities			
Long-term debt outstanding	\$ 13,562,060	\$ 15,855,216	\$ (2,293,156)
Other liabilities	2,718,966	2,984,254	(265,288)
Total Liabilities	\$ 16,281,026	\$ 18,839,470	\$ (2,558,444)
Deferred Inflow of Resources			
Advanced allotments	\$ 2,370,000	\$ -	\$ 2,370,000

	Governmental Activities		
	2013	2012	\$ Change
Net Position			
Net investment in capital assets	\$ 130,077,471	\$ 130,134,664	\$ (57,193)
Restricted	2,110,746	2,412,619	(301,873)
Unrestricted	32,361,609	33,117,801	(756,192)
Total Net Position	\$ 164,549,826	\$ 165,665,084	\$ (1,115,258)

The largest portion of Goodhue County's net position 79 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 \$32 million of net position, or 20 percent, represents unrestricted net position that may be used to meet ongoing obligations to citizens and creditors. In 2013, unrestricted net position decreased by \$756,192.

Governmental Activities

Reflected in Table 2 are the changes in revenues and expenses sorted by activity. Total 2013 revenue for County Governmental Activities increased by 2.9 percent, and expenses increased by 16.6 percent. Property taxes went up minimally with only a \$250,000 increase in the Pay 2013 levy. Much of the increase in expenses was covered by the utilization of restricted resources from the previous year, the majority of which was 2012 bonding dollars received for specific highway projects completed in 2013.

Table 2
Changes in Net Position

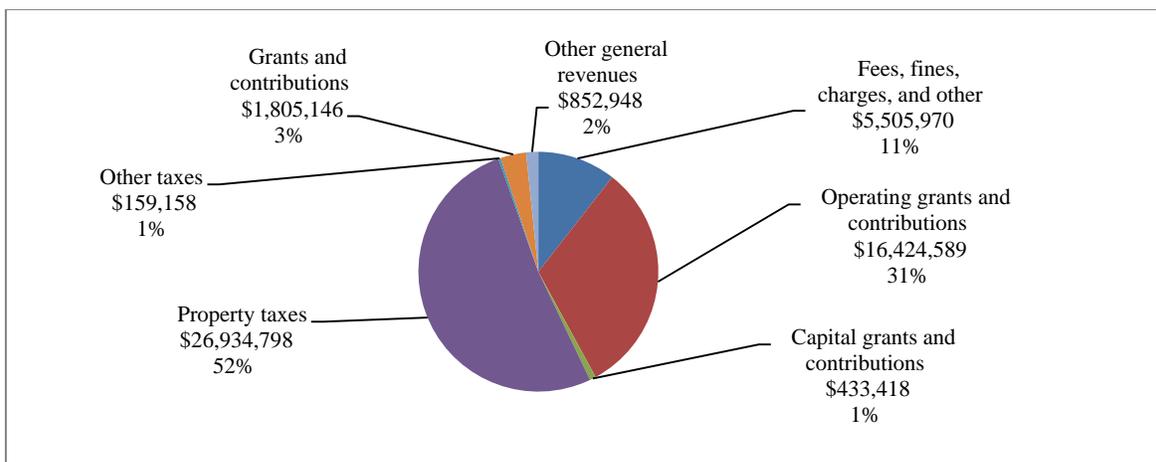
	Governmental Activities			
	2013	2012	\$ Change	% Change
Revenues				
Program revenues				
Fees, fines, charges, and other	\$ 5,505,970	\$ 5,506,386	\$ (416)	0.0
Operating grants and contributions	16,424,589	14,974,702	1,449,887	9.7
Capital grants and contributions	433,418	592,651	(159,233)	(26.9)
General revenues				
Property taxes	26,934,798	26,698,457	236,341	0.9
Other taxes	159,158	128,650	30,508	23.7
Grants and contributions	1,805,146	1,761,042	44,104	2.5
Other general revenues	852,948	979,064	(126,116)	(12.9)
Total Revenues	\$ 52,116,027	\$ 50,640,952	\$ 1,475,075	2.9

	Governmental Activities			
	2013	2012	\$ Change	% Change
Program expenses				
General government	\$ 10,166,886	\$ 9,601,229	\$ 565,657	5.9
Public safety	12,341,409	11,823,758	517,651	4.4
Highways and streets	16,202,194	9,778,522	6,423,672	65.7
Sanitation	689,583	786,078	(96,495)	(12.3)
Human services	9,689,420	9,462,127	227,293	2.4
Health	2,340,880	2,605,568	(264,688)	(10.2)
Culture and recreation	585,585	591,272	(5,687)	(1.0)
Conservation of natural resources	685,989	691,527	(5,538)	(0.8)
Economic development	206,740	108,427	98,313	90.7
Interest	322,599	219,033	103,566	47.3
Total Program Expenses	\$ 53,231,285	\$ 45,667,541	\$ 7,563,744	16.6
Increase (Decrease) in Net Position	\$ (1,115,258)	\$ 4,973,411	\$ (6,088,669)	(122.4)
Net Position - January 1	165,665,084	160,691,673	4,973,411	3.1
Net Position - December 31	\$ 164,549,826	\$ 165,665,084	\$ (1,115,258)	(0.7)

Overall, County governmental program revenues increased from \$21,073,739 in 2012 to \$22,363,977 in 2013, with a large increase in operating grants and contributions. The County paid for the remaining “public benefit” portion of governmental activities with 2013 general revenue dollars of \$29,752,050, up \$184,837 from 2012. General revenues, which are made up of primarily taxes, also include grants and the sale of capital assets.

Total program expenses reflect a net increase of 16.6 percent. The increase seen in highways and streets of \$6,423,672 is due to the larger volume of projects scheduled during 2013. In program areas where expenses were down, those decreases ranged from 0.8 percent (Conservation) to 12.3 percent (Sanitation).

**Governmental Activities
Revenues by Source**



Per Table 2, one can see the cost of all governmental activities in 2013 was \$53,231,285, compared to \$45,667,541 in 2012. 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 \$5,505,970 of the cost. For example, direct users are charged things such as building permit fees, recording fees, inmate boarding fees, etc. Another \$16,858,007 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, 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 \$29,752,050.

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.

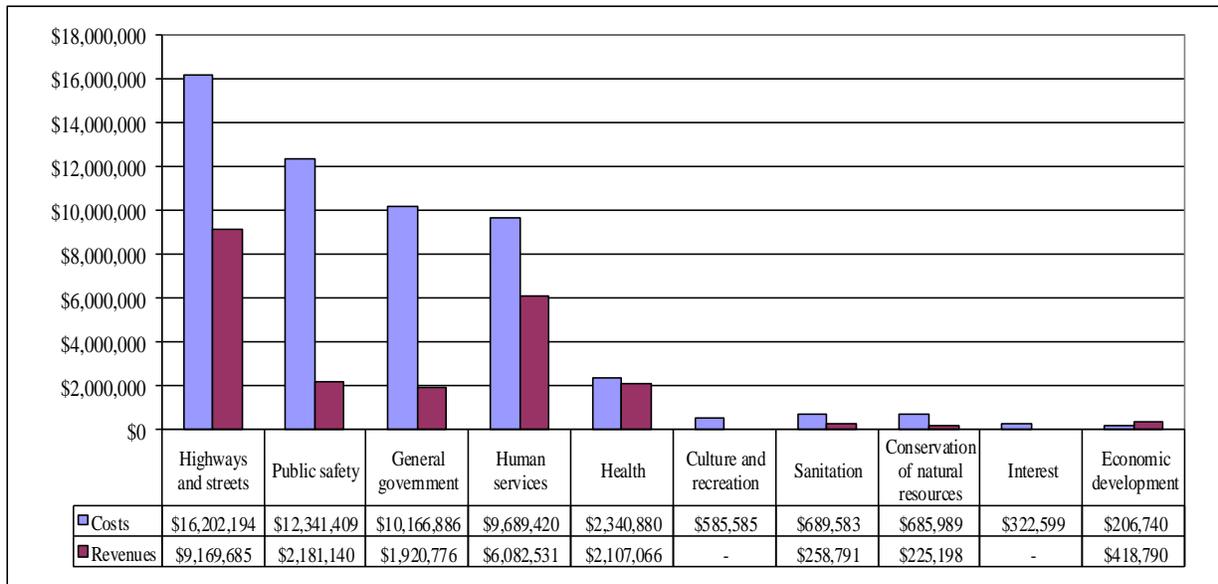
**Table 3
Governmental Activities
Costs of Services**

	Total Cost of Services		
	2013	2012	\$ Change
Highways and streets	\$ 16,202,194	\$ 9,778,522	\$ 6,423,672
Public safety	12,341,409	11,823,758	517,651
General government	10,166,886	9,601,229	565,657
Human services	9,689,420	9,462,127	227,293
Health	2,340,880	2,605,568	(264,688)
All others	2,490,496	2,396,337	94,159
Totals	\$ 53,231,285	\$ 45,667,541	\$ 7,563,744

	Net Cost of Services		
	2013	2012	\$ Change
Highways and streets	\$ 7,032,509	\$ 2,113,073	\$ 4,919,436
Public safety	10,160,269	9,274,782	885,487
General government	8,246,110	7,667,287	578,823
Human services	3,606,889	3,165,588	441,301
Health	233,814	728,813	(494,999)
All others	1,587,717	1,644,259	(56,542)
Totals	\$ 30,867,308	\$ 24,593,802	\$ 6,273,506

The net cost of services increased \$6,273,506, or 25.5 percent, compared to the previous year. As shown in the Table 3 above, 78.4 percent of that increase is due to highway projects. 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.

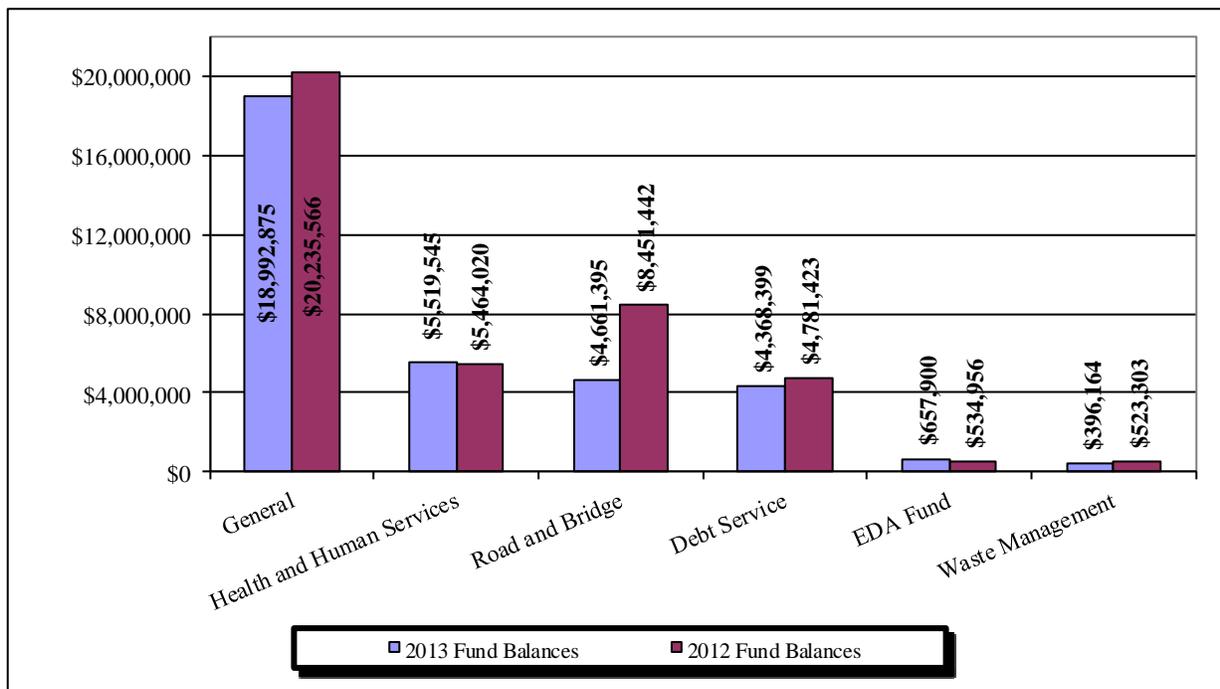
The focus of Goodhue County’s governmental funds is to provide information on near-term inflows, outflows, and balances of available resources. Therefore, the timing of cash flows is taken into account in the governmental fund financial statements, while it is disregarded in the government-wide statements. 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 four major governmental funds. These funds are: (1) General, (2) Road and Bridge Special Revenue, (3) Health and Human Services 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 \$34,596,278. This represents a decrease of almost \$5.4 million (13.5 percent) from December 31, 2012. Most of this decrease can be attributed to the use of 2012 bond proceeds during 2013. At year-end 2012, just over \$3 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 decreased by \$1,242,691, or 6.14 percent, in 2013. This was largely due to utilization of fund balance for capital projects.

The Road and Bridge Special Revenue Fund accounts for maintenance and improvements to the infrastructure of the County. The \$4.66 million fund balance at the end of 2013 represents a significant decrease of \$3.8 million (44.8 percent) over 2012 and is a direct result of using 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 \$5.52 million fund balance at the end of 2013, up only \$55,525 from 2012. The fund continues to monitor its spending as approximately half of its revenue comes from other governmental sources.

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 \$4.37 million fund balance at the end of 2013, which was \$413,024 less 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, 2013, the County's General Fund actual expenditures were \$1,067,504 more than the projected budget. Many departments were under budget; some were over in the \$20,000 range. The biggest area of budget overage was in buildings and plant where the budget was \$1 million over budget. After a review of fund balances, the Board decided to move forward with a number of capital projects utilizing reserves rather than bonding for the projects.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2013, the County had \$138,329,398 invested in a broad range of capital assets, including land, buildings, equipment, and infrastructure. (See Table 4.) This represents a net increase of \$914,346.

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

	Governmental Activities		
	2013	2012	\$ Change
Land	\$ 8,757,443	\$ 8,320,712	\$ 436,731
Construction in progress	5,556,548	2,061,966	3,494,582
Buildings and land improvements	21,290,847	22,127,445	(836,598)
Machinery, vehicles, furniture and equipment	10,647,154	11,031,640	(384,486)
Infrastructure	92,077,406	93,873,289	(1,795,883)
Totals	\$ 138,329,398	\$ 137,415,052	\$ 914,346

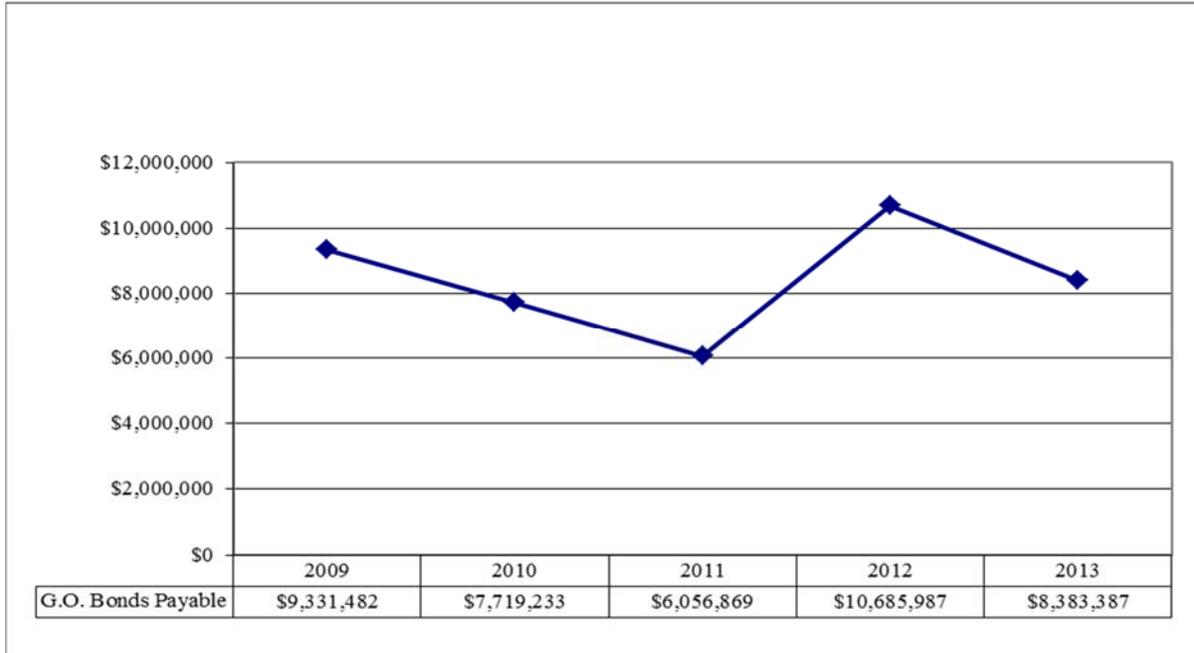
Debt Administration

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

As of December 31, 2013, the County had \$8,383,387 in bonds and notes outstanding, a decrease of \$2,302,600 as shown in Table 5. Of that debt balance, \$1.9 million will be fully paid off in 2014. The two remaining issues are approximately \$6.0 million of bonds sold in August 2012 for upgrades to the Government Center and funding for 2011-2013 highway projects.

The Board continues to do long-range planning for highway and facility needs. They plan to sell around \$8.0 million in 2014 to complete the financing of a number of highway projects. In addition, they are planning to renovate a current building in 2015 which houses several departments. Knowing the final payment on the 2005B Jail Bonds will be made in 2014 and realizing the need to take care of the public facilities, the Board is exploring highway and facility bond structures which will keep them within their current \$2.0 million self-imposed debt levy limit.

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



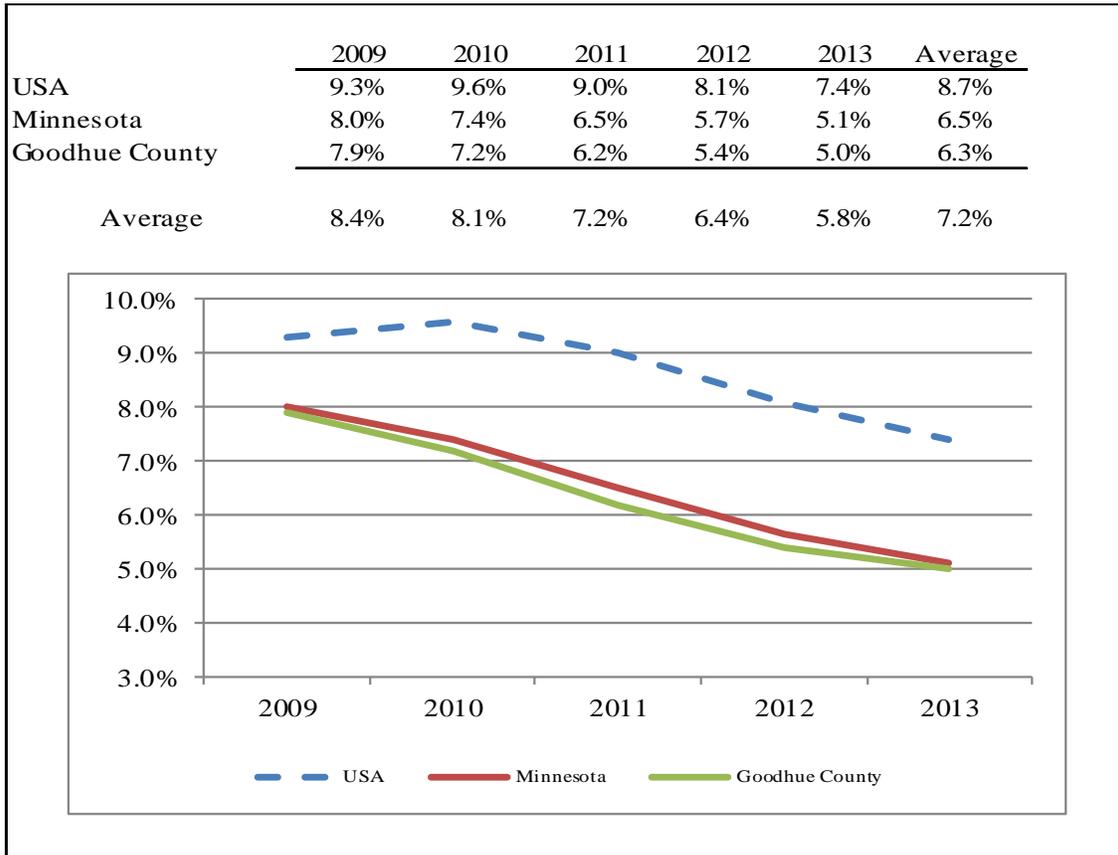
Other long-term liabilities on December 31, 2013, include: compensated absence liability (accrued vacation and sick leave payable) of \$4,250,202 and landfill closure and postclosure care liability of \$960,398. More detailed information about the County’s long-term liabilities is presented in Note 3.C. of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS

Unemployment

The 12-month average for unemployment in 2013 for the U.S., Minnesota, and Goodhue County was 7.4 percent, 5.1 percent, and 5.0 percent, respectively. This compared to 2012 of 8.1 percent, 5.7 percent, and 5.4 percent. As outlined in Table 6, Goodhue County and the State of Minnesota continue to trend well below national unemployment averages. Current 2014 average unemployment rates for April 2014 were 5.9 percent, 4.5 percent, and 4.4 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. In fact, there is a local company making a large addition in 2014 which they indicate will bring 100 new jobs to the County.

**Table 6
Unemployment Rates - 5-Year Trend**



Property Value Growth

Pay 2013 saw a sizeable increase in the agricultural property in the County, and it remained stable for Pay 2014. With bumper crops the last two years, the land is expected to remain at its current value.

Other classifications have not had any significant changes due to economic or other conditions. Real estate sales (both prices and volume) and new construction continue to appear to be holding their own and increasing slightly.

Xcel Energy, a local nuclear plant, has been licensed to continue operating through at least 2034. With that news, in 2013 it added equipment valued at more than \$166 million, increasing the utilities tax base in the County.

State Financial Position

The County's elected and appointed officials considered many factors when setting the fiscal year 2013 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.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2013**

	Primary Government Governmental Activities	Belle Creek Watershed Component Unit
<u>Assets</u>		
Cash and pooled investments	\$ 37,130,716	\$ 255,906
Petty cash and change funds	2,050	-
Taxes receivable		
Prior	555,093	-
Special assessments receivable		
Current	19,857	-
Noncurrent	43,741	-
Accounts receivable - net	155,346	-
Accrued interest receivable	51,667	165
Loans receivable	1,043,673	-
Due from other governments	1,596,099	270
Due from primary government	-	4
Inventories	341,695	-
Prepaid items	446,226	-
Restricted assets		
Cash and pooled investments	218,395	-
Investment in joint venture	3,266,896	-
Capital assets		
Non-depreciable	14,313,991	378,550
Depreciable - net of accumulated depreciation	124,015,407	-
Total Assets	\$ 183,200,852	\$ 634,895
<u>Liabilities</u>		
Accounts payable	\$ 562,667	\$ -
Salaries payable	1,289,770	-
Contracts payable	202,565	-
Due to other governments	467,098	-
Accrued interest payable	67,870	-
Unearned revenue	116,370	-
Customer deposits	12,626	-
Long-term liabilities		
Due within one year	3,670,373	-
Due in more than one year	9,891,687	-
Total Liabilities	\$ 16,281,026	\$ -

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

***EXHIBIT 1
(Continued)***

**STATEMENT OF NET POSITION
DECEMBER 31, 2013**

	Primary Government Governmental Activities	Belle Creek Watershed Component Unit
<u>Deferred Inflows of Resources</u>		
Advanced allotments	\$ 2,370,000	\$ -
<u>Net Position</u>		
Net investment in capital assets	\$ 130,077,471	\$ 378,550
Restricted for		
General government	444,050	-
Public safety	454,684	-
Highways and streets	253,367	-
Conservation of natural resources	2,853	-
Economic development	610,992	-
Landfill postclosure	218,395	-
Gravel pit postclosure	126,405	-
Unrestricted	32,361,609	256,345
Total Net Position	\$ 164,549,826	\$ 634,895

**GOODHUE COUNTY
RED WING, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary government		
Governmental activities		
General government	\$ 10,166,886	\$ 1,696,629
Public safety	12,341,409	1,129,708
Highways and streets	16,202,194	161,352
Sanitation	689,583	252,670
Human services	9,689,420	1,350,361
Health	2,340,880	730,665
Culture and recreation	585,585	-
Conservation of natural resources	685,989	19,080
Economic development	206,740	165,505
Interest	322,599	-
Total Governmental Activities	\$ 53,231,285	\$ 5,505,970
Component unit		
Belle Creek Watershed	\$ 9,466	\$ -

General Revenues

Property taxes
Gravel taxes
Mortgage registry and deed tax
Wheelage 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 position

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 Governmental Activities	Belle Creek Watershed Discretely Presented Component Unit
\$ 224,147	\$ -	\$ (8,246,110)	
1,051,432	-	(10,160,269)	
8,574,915	433,418	(7,032,509)	
6,121	-	(430,792)	
4,732,170	-	(3,606,889)	
1,376,401	-	(233,814)	
-	-	(585,585)	
206,118	-	(460,791)	
253,285	-	212,050	
-	-	(322,599)	
\$ 16,424,589	\$ 433,418	\$ (30,867,308)	
\$ -	\$ -		\$ (9,466)
		\$ 26,934,798	\$ 19,517
		84,584	-
		45,961	-
		28,613	-
		228,917	-
		1,805,146	541
		225,946	1,907
		387,739	-
		10,346	-
		\$ 29,752,050	\$ 21,965
		\$ (1,115,258)	\$ 12,499
		165,665,084	622,396
		\$ 164,549,826	\$ 634,895

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**GOODHUE COUNTY
RED WING, MINNESOTA**

**BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 19,637,691	\$ 6,832,930
Petty cash and change funds	1,375	50
Taxes receivable		
Prior	325,776	78,061
Special assessments		
Current	7,915	-
Prior	7,915	-
Accounts receivable - net	42,582	1,826
Accrued interest receivable	51,667	-
Due from other funds	8,595	3,712
Due from other governments	365,903	423,259
Prepaid items	288,273	37,681
Inventories	-	341,695
Loans receivable	50,553	-
Restricted assets		
Cash and pooled investments	-	-
Total Assets	\$ 20,788,245	\$ 7,719,214
 <u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 228,270	\$ 48,293
Salaries payable	798,770	107,461
Contracts payable	-	202,565
Due to other funds	4,018	-
Due to other governments	164,422	15,920
Unearned revenue	116,370	-
Customer deposits	12,626	-
Total Liabilities	\$ 1,324,476	\$ 374,239
Deferred Inflows of Resources		
Unavailable revenue	\$ 470,894	\$ 313,580
Advanced allotments	-	2,370,000
Total Deferred Inflows of Resources	\$ 470,894	\$ 2,683,580
Fund Balances		
Nonspendable	\$ 288,273	\$ 379,376
Restricted	1,027,992	-
Committed	4,835,089	1,417,128
Assigned	2,405,606	2,864,891
Unassigned	10,435,915	-
Total Fund Balances	\$ 18,992,875	\$ 4,661,395
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 20,788,245	\$ 7,719,214

EXHIBIT 3

<u>Health and Human Services</u>	<u>Debt Service</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 5,918,465	\$ 4,359,557	\$ 382,073	\$ 37,130,716
550	-	75	2,050
101,273	43,079	6,904	555,093
-	11,942	-	19,857
-	35,826	-	43,741
94,834	-	16,104	155,346
-	-	-	51,667
306	-	-	12,613
806,194	-	743	1,596,099
115,858	-	4,414	446,226
-	-	-	341,695
-	-	993,120	1,043,673
-	-	218,395	218,395
<u>\$ 7,037,480</u>	<u>\$ 4,450,404</u>	<u>\$ 1,621,828</u>	<u>\$ 41,617,171</u>
\$ 275,232	\$ 955	\$ 9,917	\$ 562,667
365,830	-	17,709	1,289,770
-	-	-	202,565
8,595	-	-	12,613
283,192	-	3,564	467,098
-	-	-	116,370
-	-	-	12,626
<u>\$ 932,849</u>	<u>\$ 955</u>	<u>\$ 31,190</u>	<u>\$ 2,663,709</u>
\$ 585,086	\$ 81,050	\$ 536,574	\$ 1,987,184
-	-	-	2,370,000
<u>\$ 585,086</u>	<u>\$ 81,050</u>	<u>\$ 536,574</u>	<u>\$ 4,357,184</u>
\$ 115,858	\$ -	\$ 4,414	\$ 787,921
-	-	829,387	1,857,379
259,179	3,967,843	81,983	10,561,222
5,144,508	400,556	138,280	10,953,841
-	-	-	10,435,915
<u>\$ 5,519,545</u>	<u>\$ 4,368,399</u>	<u>\$ 1,054,064</u>	<u>\$ 34,596,278</u>
<u>\$ 7,037,480</u>	<u>\$ 4,450,404</u>	<u>\$ 1,621,828</u>	<u>\$ 41,617,171</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, 2013**

Fund balances - total governmental funds (Exhibit 3)	\$	34,596,278
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		138,329,398
Investment in joint venture is not available to pay for current period expenditures and, therefore, is not reported in the governmental funds.		3,266,896
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		1,987,184
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	\$ (8,220,000)	
Revenue bonds	(35,717)	
Bond issuance discounts	33,092	
Bond issuance premiums	(1,165)	
Notes payable	(127,670)	
Compensated absences	(4,250,202)	
Accrued interest payable	(67,870)	
Landfill postclosure care liability	(960,398)	
	(13,629,930)	(13,629,930)
Net Position of Governmental Activities (Exhibit 1)	\$	<u>164,549,826</u>

**GOODHUE COUNTY
RED WING, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	General	Road and Bridge
Revenues		
Taxes	\$ 15,997,816	\$ 3,696,412
Special assessments	-	-
Licenses and permits	298,124	9,495
Intergovernmental	3,282,015	9,306,878
Charges for services	1,811,683	19,830
Fines and forfeits	16,573	-
Gifts and contributions	33,143	-
Investment earnings	221,517	-
Miscellaneous	1,311,501	138,537
	\$ 22,972,372	\$ 13,171,152
Expenditures		
Current		
General government	\$ 10,427,458	\$ -
Public safety	11,765,643	-
Highways and streets	-	16,755,322
Sanitation	-	-
Human services	-	-
Health	-	-
Culture and recreation	583,118	271,077
Conservation of natural resources	685,756	-
Economic development	4,375	-
Debt service		
Principal	15,000	-
Interest	-	-
Administrative (fiscal) charges	-	-
Intergovernmental		
Highways and streets	-	407,913
	\$ 23,481,350	\$ 17,434,312
Excess of Revenues Over (Under) Expenditures	\$ (508,978)	\$ (4,263,160)
Other Financing Sources (Uses)		
Transfers in	\$ 16,044	\$ 582,484
Transfers out	(760,103)	(8,544)
Proceeds from sale of capital assets	10,346	-
	\$ (733,713)	\$ 573,940
Change in Fund Balance	\$ (1,242,691)	\$ (3,689,220)
Fund Balance - January 1	20,235,566	8,451,442
Increase (decrease) in inventories	-	(100,827)
Fund Balance - December 31	\$ 18,992,875	\$ 4,661,395

EXHIBIT 5

<u>Health and Human Services</u>	<u>Debt Service</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 5,138,971	\$ 2,012,383	\$ 330,823	\$ 27,176,405
-	6,344	-	6,344
-	-	7,605	315,224
5,753,054	28,757	262,227	18,632,931
1,651,645	-	48,947	3,532,105
-	-	-	16,573
-	-	-	33,143
-	-	328	221,845
435,534	31,590	244,769	2,161,931
\$ 12,979,204	\$ 2,079,074	\$ 894,699	\$ 52,096,501
\$ -	\$ -	\$ -	\$ 10,427,458
-	-	-	11,765,643
-	-	-	16,755,322
-	-	706,612	706,612
10,662,549	-	-	10,662,549
2,421,166	-	-	2,421,166
-	-	-	854,195
-	-	-	685,756
-	-	202,365	206,740
-	2,287,600	-	2,302,600
-	192,122	-	192,122
-	12,376	-	12,376
-	-	-	407,913
\$ 13,083,715	\$ 2,492,098	\$ 908,977	\$ 57,400,452
\$ (104,511)	\$ (413,024)	\$ (14,278)	\$ (5,303,951)
\$ 167,536	\$ -	\$ 10,083	\$ 776,147
(7,500)	-	-	(776,147)
-	-	-	10,346
\$ 160,036	\$ -	\$ 10,083	\$ 10,346
\$ 55,525	\$ (413,024)	\$ (4,195)	\$ (5,293,605)
5,464,020	4,781,423	1,058,259	39,990,710
-	-	-	(100,827)
\$ 5,519,545	\$ 4,368,399	\$ 1,054,064	\$ 34,596,278

**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, 2013**

Net change in fund balances - total governmental funds (Exhibit 5) \$ (5,293,605)

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

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

Unavailable revenue - December 31	\$ 1,987,184	
Unavailable revenue - January 1	(1,745,131)	242,053

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 position differs from the change in fund balance by the net book value of the assets sold.

Expenditures for general capital assets and infrastructure	\$ 6,779,706	
Net book value of assets sold	(61,392)	
Current year depreciation	(5,803,968)	914,346

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. 921,283

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 position.

Principal repayments		
Expenditures for principal retirement		2,302,600

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 charges on refunding	\$ (23,430)	
Amortization of bond premiums and discounts	1,736	
Deferred charges not previously expensed	(85,618)	
Change in accrued interest payable	(6,046)	
Change in landfill postclosure care liability	11,548	
Change in compensated absences	702	
Change in inventories	(100,827)	(201,935)

Change in Net Position of Governmental Activities (Exhibit 2) \$ (1,115,258)

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

FIDUCIARY FUNDS

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**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2013**

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and pooled investments	\$ 1,328,180
Accounts receivable	29,734
Due from other governments	<u>24,475</u>
Total Assets	<u><u>\$ 1,382,389</u></u>
<u>Liabilities</u>	
Due to component unit	\$ 4
Due to other governments	<u>1,382,385</u>
Total Liabilities	<u><u>\$ 1,382,389</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, 2013

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, 2013. 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.

Changes in Accounting Principles

During 2013, the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement 61 and 65. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, modifies and clarifies the requirements for inclusion of component units and their presentation in the primary government's financial statements. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items previously reported as assets and liabilities and recognizes, as outflows of resources and inflows of resources, certain items previously reported as assets and liabilities. See Note 1.D.9. for additional information regarding the County's deferred outflows/inflows of resources.

Restatements of December 31, 2012, net position or fund balance were not required as a result of adopting these changes in accounting principles.

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.

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

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.

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. The County also participates in jointly-governed organizations described in Note 5.D.

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

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.

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

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.

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

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

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:

Fiduciary 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.

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Finance Director for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2013, 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 2013 were \$221,203.

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

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

1. Deposits and Investments (Continued)

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.

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.

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

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

2. Receivables and Payables

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.”

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.

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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.

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 government 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

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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.

7. Unearned Revenue

All County funds and the government-wide financial statements defer revenue for resources that have been received, but not yet earned.

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums and discounts 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.

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

9. Deferred Outflow/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. Currently, the County has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has two such items. The County reports unavailable revenue in connection with receivables for revenues not considered available to liquidate liabilities of the current period. Unavailable revenue arises only under the modified accrual basis of accounting and is reported only in the governmental funds. Advanced allotments arise under both the modified accrual and full accrual bases of accounting. Unavailable revenue and advanced allotments are reported in the governmental funds balance sheet, while advanced allotments are also reported in the governmental activities statement of net position. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

10. Classification of Net Position

Net position in government-wide statements are 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.

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Classification of Net Position (Continued)

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 do not meet the definition of restricted or net investment in capital assets.

11. Classification of Fund Balance

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 is imposed by law through constitutional provisions or enabling legislation.

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Classification of Fund Balances (Continued)

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'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.

12. 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.

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

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.

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.

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Revenues (Continued)

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.

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, 2013.

	<u>Final Budget</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund	\$ 22,413,846	\$ 23,481,350	\$ 1,067,504
Special Revenue Funds			
Road and Bridge	14,893,825	17,434,312	2,540,487
Health and Human Services	12,968,915	13,083,715	114,800
Economic Development Authority	23,650	202,365	178,715
Debt Service Fund	2,481,894	2,492,098	10,204

**GOODHUE COUNTY
RED WING, MINNESOTA**

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	\$ 37,130,716
Petty cash and change funds	2,050
Restricted cash	218,395
Fiduciary funds	
Agency funds	
Cash and pooled investments	1,328,180
Total Cash and Investments	\$ 38,679,341
Deposits	\$ 13,161,921
Petty cash and change funds	2,050
Investments	25,515,370
Total	\$ 38,679,341

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 that is not owned or controlled by the financial institution furnishing the collateral.

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a financial institution failure, the County's deposits may not be returned to it. The County's policy on custodial credit risk mirrors state statute. As of December 31, 2013, 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.

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.

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County has no policy concerning custodial credit risk. On December 31, 2013, the County's investments were not exposed 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.

The following table presents the County's investment balances at December 31, 2013, 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	\$ 5,006
Wells Fargo Brokerage - money market mutual funds	Aa3	Moody's	N/A	<u>1,475,239</u>
Total mutual funds				<u>\$ 1,480,245</u>
Commercial paper				
Wells Fargo Brokerage				
ING (US) Funding	P1	Moody's	<5%	\$ 499,440
General Electric Cap	A1	Moody's	<5%	<u>549,364</u>
Total commercial paper				<u>\$ 1,048,804</u>

**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		
Municipal bonds				
Wells Fargo Brokerage				
Cannon Falls ISD #252	AA+	S&P	<5%	\$ 95,000
Golden Valley, MN	Aaa	Moody's	<5%	400,000
St. Croix County, Wisconsin	Aa1	Moody's	<5%	393,650
				\$ 888,650
Total municipal bonds				
				\$ 888,650
Agency securities				
Wells Fargo Brokerage				
FNMA	Aaa	Moody's	<5%	\$ 253,005
FHLMC	Aaa	Moody's	<5%	250,850
				\$ 503,855
Total agency securities				
				\$ 503,855
Bonds				
Small Business Administration				
Wells Fargo Brokerage			N/A	\$ 128,496
EE U.S. Savings Bonds	N/A	N/A	N/A	\$ 30,675
Negotiable certificates of deposit	N/A	N/A	N/A	\$ 21,434,645
				\$ 21,434,645
Total Investments				
				\$ 25,515,370

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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				
ING (US) Funding	\$ 499,440	\$ 499,440	\$ -	\$ -
General Electric Cap	549,364	549,364	-	-
Total commercial paper	\$ 1,048,804	\$ 1,048,804	\$ -	\$ -
Municipal bonds				
Cannon Falls ISD #252	\$ 95,000	\$ 95,000	\$ -	\$ -
Golden Valley, Minnesota	400,000	400,000	-	-
St. Croix County, Wisconsin	393,650	-	393,650	-
Total municipal bonds	\$ 888,650	\$ 495,000	\$ 393,650	\$ -
Agency securities				
FNMA	\$ 253,005	\$ 253,005	\$ -	\$ -
FHLMC	250,850	-	250,850	-
Total agency securities	\$ 503,855	\$ 253,005	\$ 250,850	\$ -
Bonds				
Small Business Administration	\$ 128,496	\$ -	\$ -	\$ 128,496
EE U.S. Savings Bonds	30,675	-	-	30,675
Total bonds	\$ 159,171	\$ -	\$ -	\$ 159,171
Negotiable certificates of deposit	\$ 21,434,645	\$ 18,944,742	\$ 884,877	\$ 1,605,026
Total Investments Subject to Interest Rate Risk	\$ 24,035,125	\$ 20,741,551	\$ 1,529,377	\$ 1,764,197
Investments not subject to interest rate risk	1,480,245			
Total Investments	\$ 25,515,370			

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2013, net of the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 555,093	\$ -
Special assessments	63,598	43,741
Due from other governments	1,596,099	-
Accounts (net)	155,346	-
Interest	51,667	-
Loans receivable	1,043,673	971,970
Total Governmental Activities	\$ 3,465,476	\$ 1,015,711

Of the loans receivable, \$993,120 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 \$938,926 in MIF flood loans not scheduled for collection in the subsequent year.

3. Capital Assets

Capital asset activity for the year ended December 31, 2013, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 8,320,712	\$ 436,731	\$ -	\$ 8,757,443
Construction in progress	2,061,966	4,763,065	1,268,483	5,556,548
Total capital assets not depreciated	\$ 10,382,678	\$ 5,199,796	\$ 1,268,483	\$ 14,313,991

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets depreciated				
Land improvements	\$ 252,269	\$ -	\$ -	\$ 252,269
Buildings	37,358,412	86,594	-	37,445,006
Machinery, furniture, and equipment	19,687,242	1,104,053	1,493,985	19,297,310
Infrastructure	157,617,221	1,744,340	-	159,361,561
	<u>\$ 214,915,144</u>	<u>\$ 2,934,987</u>	<u>\$ 1,493,985</u>	<u>\$ 216,356,146</u>
Total capital assets depreciated				
Less: accumulated depreciation for				
Land improvements	\$ 81,672	\$ 9,658	\$ -	\$ 91,330
Buildings	15,401,564	913,534	-	16,315,098
Machinery, furniture, and equipment	8,655,602	1,340,553	1,345,999	8,650,156
Infrastructure	63,743,932	3,540,223	-	67,284,155
	<u>\$ 87,882,770</u>	<u>\$ 5,803,968</u>	<u>\$ 1,345,999</u>	<u>\$ 92,340,739</u>
Total accumulated depreciation				
Total capital assets depreciated, net	<u>\$ 127,032,374</u>	<u>\$ (2,868,981)</u>	<u>\$ 147,986</u>	<u>\$ 124,015,407</u>
Total Capital Assets, Net	<u>\$ 137,415,052</u>	<u>\$ 2,330,815</u>	<u>\$ 1,416,469</u>	<u>\$ 138,329,398</u>

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

Governmental Activities	
General government	\$ 1,070,000
Public safety	657,173
Highways and streets, including depreciation of infrastructure assets	3,964,609
Human services	51,016
Health	1,093
Sanitation	56,832
Culture/recreation	3,245
	<u> </u>
Total Depreciation Expense - Governmental Activities	<u>\$ 5,803,968</u>

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2013, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Health and Human Services	\$ 8,595
Road and Bridge	General	3,712
Health and Human Services	General	306
Total Due To/From Other Funds		\$ 12,613

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

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2013, 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	582,484	Capital expenditures
Transfers to Health and Human Services Fund from General Fund	11,945	Capital expenditures
	969	Software license/maint.
	154,622	Termination payments
Transfers to Economic Development Authority Fund from General Fund	10,000	1916 tax incentives
Transfers to Waste Management Fund from General Fund	83	OEM training drills
Total Interfund Transfers	\$ 776,147	

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Construction Commitments

The government has active construction projects as of December 31, 2013. The projects include the following:

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Governmental Activities		
Roads and bridges	\$ 3,003,026	\$ 3,361,431

2. Payables

Payables at December 31, 2013, were as follows:

	<u>Governmental Activities</u>
Accounts	\$ 562,667
Salaries	1,289,770
Contracts	202,565
Due to other governments	467,098
Total Payables	\$ 2,522,100

3. Capital Leases

The County has not entered into any capital lease agreements as of December 31, 2013.

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2013
General obligation bonds 1997B G.O. Welch Village Revenue Bonds	2018	\$3,120 - \$8,095	1.58	\$ 143,750	\$ 35,717
1998, 2001, and 2003 G.O. Revenue Notes	2023	\$1,284 - \$7,804	0.00	175,670	127,670
2005B Jail Refunding Bonds	2014	\$20,000 - \$1,860,000	3.60 - 3.625	3,460,000	1,860,000
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	1,295,000	1,295,000
Total General Obligation Bonds				<u>\$ 10,139,420</u>	<u>\$ 8,383,387</u>

5. Debt Service Requirements

Debt service requirements at December 31, 2013, were as follows:

Year Ending December 31	General Obligation CIP Bonds		General Obligation Refunding Bonds	
	Principal	Interest	Principal	Interest
2014	\$ -	\$ 95,012	\$ 1,860,000	33,712
2015	1,720,000	90,712	-	-
2016	405,000	85,197	-	-
2017	405,000	82,362	-	-
2018	410,000	78,692	-	-
2019 - 2023	2,125,000	311,702	-	-
2024 - 2027	1,295,000	156,373	-	-
Total	<u>\$ 6,360,000</u>	<u>\$ 900,050</u>	<u>\$ 1,860,000</u>	<u>\$ 33,712</u>

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

5. Debt Service Requirements (Continued)

Year Ending December 31	General Obligation Revenue Bonds		General Obligation Revenue Notes	
	Principal	Interest	Principal	Interest
2014	\$ 7,720	\$ 534	\$ 17,568	\$ -
2015	7,843	412	17,568	-
2016	7,967	287	17,568	-
2017	8,093	161	17,568	-
2018	4,094	32	17,568	-
2019 - 2023	-	-	39,830	-
Total	\$ 35,717	\$ 1,426	\$ 127,670	\$ -

Goodhue County's 2012B General Obligation Capital Improvement Bonds are structured with annual sinking-fund payments of \$99,615. These sinking-fund payments begin February 1, 2015, and span 13 years. The final sinking-fund payment is due February 1, 2027, at which time the debt will be retired.

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2013, 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	\$ 9,840,000	\$ -	\$ 1,620,000	\$ 8,220,000	\$ 1,860,000
G.O. revenue bonds	703,317	-	667,600	35,717	7,720
G.O. notes	142,670	-	15,000	127,670	17,568
Deferred amounts					
For issuance premiums	5,908	-	4,743	1,165	-
For issuance discounts	(36,099)	-	(3,007)	(33,092)	-
Total bonds and notes payable	\$ 10,655,796	\$ -	\$ 2,304,336	\$ 8,351,460	\$ 1,885,288
Closure and postclosure care	971,946	-	11,548	960,398	-
Compensated absences	4,250,904	1,910,244	1,910,946	4,250,202	1,785,085
Governmental Activity					
Long-Term Liabilities	\$ 15,878,646	\$ 1,910,244	\$ 4,226,830	\$ 13,562,060	\$ 3,670,373

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

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 \$960,398 landfill closure and postclosure care liability at December 31, 2013, is based on what it would cost to perform all closure and postclosure care in 2013. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. Not included in the above liability are \$814,397 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, 2013, investments of \$218,395 are held for these purposes. These are reported as restricted assets on the statement of net position.

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. Deferred Inflows/Outflows of Resources

There were no deferred outflows of resources for the year ended December 31, 2013. The County reports two types of deferred inflows, unavailable revenue and advanced allotments.

As of December 31, 2013, the various components of unavailable revenue were as follows:

Delinquent property taxes	\$	425,092
Special assessments receivable		63,598
Loans receivable		581,839
Receivables that do not provide current financial resources		<u>916,655</u>
Total Unavailable Revenue for All Governmental Funds	\$	<u>1,987,184</u>

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

D. Deferred Inflows/Outflows of Resources (Continued)

Advanced allotments consist of state aid received by the County but not yet appropriated by the State of Minnesota. Total advanced allotments at December 31, 2013, were \$2,370,000.

E. Fund Balance

Nonspendable, Restricted, Committed, and Assigned Fund Balances

Fund balances of the governmental funds were classified as follows at December 31, 2013.

<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 Service</u>
Prepaid items	\$ 288,273	\$ 37,681	\$ 115,858	\$ 4,414	\$ -	\$ -
Inventories	-	341,695	-	-	-	-
Total Nonspendable Fund Balance	\$ 288,273	\$ 379,376	\$ 115,858	\$ 4,414	\$ -	\$ -
<u>Restricted</u>						
Unclaimed funds	\$ 1,607	\$ -	\$ -	\$ -	\$ -	\$ -
Gravel pit postclosure	126,405	-	-	-	-	-
Law library	15,834	-	-	-	-	-
Attorney's forfeiture activities	527	-	-	-	-	-
Attorney's victim assistance	3,297	-	-	-	-	-
Recorder's technology equipment	185,505	-	-	-	-	-
Recorder's compliance fund	162,128	-	-	-	-	-
Veterans transportation	2,123	-	-	-	-	-
Sheriff's counteract	5,333	-	-	-	-	-
Sheriff's K-9 donations	25	-	-	-	-	-
Gun permit activities	36,553	-	-	-	-	-
Sheriff's contingency	151	-	-	-	-	-
E-911	252,243	-	-	-	-	-
Correction service fee	10,532	-	-	-	-	-
Local correctional fees	68,450	-	-	-	-	-
NPP funds	81,397	-	-	-	-	-
County ditch #1	2,853	-	-	-	-	-
Individual sewage treatment systems	73,029	-	-	-	-	-
Landfill closure/postclosure	-	-	-	218,395	-	-
EDA loan program (1998 IHP)	-	-	-	-	57,320	-
EDA loan program (2010 MIF)	-	-	-	-	553,672	-
Total Restricted Fund Balance	\$ 1,027,992	\$ -	\$ -	\$ 218,395	\$ 610,992	\$ -

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

E. 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 Service
Petty cash and change funds	\$ 1,375	\$ 50	\$ 550	\$ 75	\$ -	\$ -
Debt service	-	-	-	-	-	3,967,843
Economic development	-	-	-	-	46,908	-
Land use/environmental ordinance	330,418	-	-	-	-	-
Employee wellness program	3,473	-	-	-	-	-
Railroad Authority	1,805	-	-	-	-	-
Compensated absences	1,223,092	-	-	-	-	-
27th payroll (2015)	1,000,000	-	-	-	-	-
Tax court settlements	250,000	-	-	-	-	-
Natural, technological, human-caused hazards	1,000,000	-	-	-	-	-
Tax-forfeited property funding	40,000	-	-	-	-	-
Capital equipment/projects	484,809	-	-	35,000	-	-
Byllesby Dam	44,117	-	-	-	-	-
Byllesby Park and Trail	-	154,655	-	-	-	-
Health (home health care sale)	456,000	-	-	-	-	-
Health (SCHA distribution)	-	-	108,629	-	-	-
Out-of-home placement budget deficits	-	-	150,000	-	-	-
TH 52 development and construction	-	1,262,423	-	-	-	-
Total Committed Fund Balance	\$ 4,835,089	\$ 1,417,128	\$ 259,179	\$ 35,075	\$ 46,908	\$ 3,967,843
<u>Assigned</u>						
Employee training and development	\$ 46,608	\$ -	\$ -	\$ -	\$ -	\$ -
County program aid contingency	1,358,998	-	-	-	-	-
Building contingencies	1,000,000	-	-	-	-	-
Township turnbacks	-	10,834	-	-	-	-
e-Document Compass/Onbase CM	-	-	305,000	-	-	-
Potential state/federal funding cuts	-	-	250,000	-	-	-
Technology improvements	-	-	150,000	-	-	-
Hiawatha Valley mental health center contingency	-	-	237,401	-	-	-
Debt service	-	-	-	-	-	400,556
Subsequent year's budgeted expenditures	-	2,854,057	4,202,107	138,280	-	-
Total Assigned Fund Balance	\$ 2,405,606	\$ 2,864,891	\$ 5,144,508	\$ 138,280	\$ -	\$ 400,556

**GOODHUE COUNTY
RED WING, MINNESOTA**

4. 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).

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 highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

**GOODHUE COUNTY
RED WING, MINNESOTA**

4. 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 remaining year. 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 remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For 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. 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 2013:

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, 2013, 2012, and 2011, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
General Employees Retirement Fund	\$ 1,017,025	\$ 1,001,424	\$ 987,571
Public Employees Police and Fire Fund	398,619	384,608	378,581
Public Employees Correctional Fund	219,672	213,440	207,228

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

4. Pension Plans (Continued)

B. Defined Contribution Plan

Four of seven elected officials 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, 2013, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 4,319	\$ 4,319
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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 \$470,000 per claim in 2013 and \$480,000 per claim in 2014. 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.

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, 2013, was \$3,266,896. The equity interest is reported as an investment in joint venture on the government-wide statement of net position. Changes in equity are included in the government-wide statement of activities as Health and Human Services.

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.

Southeast Minnesota Emergency Communications Board

The Southeast Minnesota Emergency Communications 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 Emergency Communications Board.

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.

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.

**GOODHUE COUNTY
RED WING, MINNESOTA**

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

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 \$161,819 to the Cooperative.

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 Organization.

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

The Southeastern Minnesota Libraries Cooperative (SELCO) 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 2013 and prior years is:

	<u>Prior Years</u>	<u>During 2013</u>
Number of loans made	52	-
Loans outstanding - January 1	\$ -	\$ 80,156
Loans made	453,179	-
Payments made on loans	<u>(373,023)</u>	<u>(29,603)</u>
Loans outstanding - December 31	<u>\$ 80,156</u>	<u>\$ 50,553</u>

**GOODHUE COUNTY
RED WING, MINNESOTA**

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

G. Subsequent Event

On August 19, 2014, the County approved the issuance of \$7,760,000 debt for highway projects.

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, 2013, the District's deposits were \$255,906.

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.

**GOODHUE COUNTY
RED WING, MINNESOTA**

6. Belle Creek Watershed Disclosures

B. Detailed Notes on the General Fund

Deposits (Continued)

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.

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, 2013, the District’s deposits were exposed to custodial credit risk in the amount of \$5,906.

Capital Assets

The District’s capital asset activity for the year ended December 31, 2013, 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

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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, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 15,867,940	\$ 15,867,940	\$ 15,997,816	\$ 129,876
Licenses and permits	180,615	180,615	298,124	117,509
Intergovernmental	3,136,009	3,136,009	3,282,015	146,006
Charges for services	1,804,199	1,804,199	1,811,683	7,484
Fines and forfeits	15,000	15,000	16,573	1,573
Gifts and contributions	33,000	32,032	33,143	1,111
Investment earnings	200,500	200,500	221,517	21,017
Miscellaneous	1,117,795	1,116,493	1,311,501	195,008
Total Revenues	\$ 22,355,058	\$ 22,352,788	\$ 22,972,372	\$ 619,584
Expenditures				
Current				
General government				
Commissioners	\$ 259,709	\$ 259,709	\$ 252,842	\$ 6,867
Courts	106,500	106,500	121,095	(14,595)
County administration	381,531	381,531	372,921	8,610
County auditor-treasurer	652,003	652,003	641,943	10,060
County assessor	870,198	870,198	841,012	29,186
Elections	2,350	2,350	5,488	(3,138)
Information technology	942,853	942,853	1,089,850	(146,997)
Human resources	312,084	312,084	332,297	(20,213)
Attorney	1,638,019	1,638,019	1,608,697	29,322
Law library	95,450	95,450	72,106	23,344
Recorder	617,255	617,255	567,796	49,459
Surveyor	325,767	326,992	315,104	11,888
GIS	215,739	215,739	195,251	20,488
Building permits	349,927	349,927	366,740	(16,813)
Planning and zoning	314,228	314,228	287,203	27,025
Environmental health	187,861	187,861	182,671	5,190
Buildings and plant	1,023,020	1,062,571	2,134,907	(1,072,336)
Veterans service officer	238,531	238,531	247,227	(8,696)
Other general government	840,368	840,368	792,308	48,060
Total general government	\$ 9,373,393	\$ 9,414,169	\$ 10,427,458	\$ (1,013,289)
Public safety				
Sheriff	\$ 4,807,654	\$ 4,807,654	\$ 4,925,639	\$ (117,985)
Sheriff - seasonal	168,570	168,570	225,899	(57,329)
Emergency management	217,573	217,573	231,717	(14,144)
Coroner	127,000	127,000	124,987	2,013
E-911 system	923,086	923,086	932,848	(9,762)
Adult detention center	4,469,536	4,469,536	4,368,894	100,642
Court services	1,001,801	1,001,801	955,659	46,142
Total public safety	\$ 11,715,220	\$ 11,715,220	\$ 11,765,643	\$ (50,423)

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-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Culture and recreation				
Historical society	\$ 92,000	\$ 92,000	\$ 92,000	\$ -
Regional library	436,452	436,452	436,452	-
Byllesby Dam	300	300	17,905	(17,605)
Other culture and recreation	37,344	37,344	36,761	583
Total culture and recreation	\$ 566,096	\$ 566,096	\$ 583,118	\$ (17,022)
Conservation of natural resources				
County extension	\$ 175,336	\$ 175,861	\$ 164,708	\$ 11,153
Soil and water conservation	499,000	499,000	496,048	2,952
Fairs	25,000	25,000	25,000	-
Total conservation of natural resources	\$ 699,336	\$ 699,861	\$ 685,756	\$ 14,105
Economic development				
Regional Railroad Authority	\$ 3,500	\$ 3,500	\$ 4,375	\$ (875)
Debt service				
Principal	\$ 15,000	\$ 15,000	\$ 15,000	\$ -
Total Expenditures	\$ 22,372,545	\$ 22,413,846	\$ 23,481,350	\$ (1,067,504)
Excess of Revenues Over (Under) Expenditures	\$ (17,487)	\$ (61,058)	\$ (508,978)	\$ (447,920)
Other Financing Sources (Uses)				
Transfers in	\$ 357,644	\$ 357,644	\$ 16,044	\$ (341,600)
Transfers out	(983,650)	(986,450)	(760,103)	226,347
Proceeds from sale of capital assets	-	-	10,346	10,346
Total Other Financing Sources (Uses)	\$ (626,006)	\$ (628,806)	\$ (733,713)	\$ (104,907)
Net Change in Fund Balance	\$ (643,493)	\$ (689,864)	\$ (1,242,691)	\$ (552,827)
Fund Balance - January 1	20,235,566	20,235,566	20,235,566	-
Fund Balance - December 31	\$ 19,592,073	\$ 19,545,702	\$ 18,992,875	\$ (552,827)

**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 3,637,794	\$ 3,637,794	\$ 3,696,412	\$ 58,618
Licenses and permits	7,000	7,000	9,495	2,495
Intergovernmental	6,565,922	6,565,922	9,306,878	2,740,956
Charges for services	8,100	8,100	19,830	11,730
Miscellaneous	27,030	27,030	138,537	111,507
Total Revenues	\$ 10,245,846	\$ 10,245,846	\$ 13,171,152	\$ 2,925,306
Expenditures				
Current				
Highways and streets				
Administration	\$ 431,188	\$ 431,188	\$ 432,835	\$ (1,647)
Maintenance	2,929,714	3,039,693	2,789,170	250,523
Construction	9,719,180	9,804,180	12,573,693	(2,769,513)
Equipment maintenance and shop	970,749	970,749	959,624	11,125
Total highways and streets	\$ 14,050,831	\$ 14,245,810	\$ 16,755,322	\$ (2,509,512)
Culture and recreation				
Parks	272,141	272,141	271,077	1,064
Intergovernmental				
Highways and streets	375,874	375,874	407,913	(32,039)
Total Expenditures	\$ 14,698,846	\$ 14,893,825	\$ 17,434,312	\$ (2,540,487)
Excess of Revenues Over (Under) Expenditures	\$ (4,453,000)	\$ (4,647,979)	\$ (4,263,160)	\$ 384,819
Other Financing Sources (Uses)				
Transfers in	\$ 614,000	\$ 614,000	\$ 582,484	\$ (31,516)
Transfers out	(8,544)	(8,544)	(8,544)	-
Bonds issued	3,839,000	3,839,000	-	(3,839,000)
Total Other Financing Sources (Uses)	\$ 4,444,456	\$ 4,444,456	\$ 573,940	\$ (3,870,516)
Net Change in Fund Balance	\$ (8,544)	\$ (203,523)	\$ (3,689,220)	\$ (3,485,697)
Fund Balance - January 1	8,451,442	8,451,442	8,451,442	-
Increase (decrease) in inventories	-	-	(100,827)	(100,827)
Fund Balance - December 31	\$ 8,442,898	\$ 8,247,919	\$ 4,661,395	\$ (3,586,524)

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, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 5,120,541	\$ 5,120,541	\$ 5,138,971	\$ 18,430
Intergovernmental	5,756,965	5,756,965	5,753,054	(3,911)
Charges for services	1,655,696	1,655,696	1,651,645	(4,051)
Miscellaneous	407,811	407,811	435,534	27,723
Total Revenues	\$ 12,941,013	\$ 12,941,013	\$ 12,979,204	\$ 38,191
Expenditures				
Current				
Human services				
Income maintenance	\$ 3,436,805	\$ 3,436,805	\$ 3,887,925	\$ (451,120)
Social services	7,117,861	7,117,861	6,774,624	343,237
Total human services	\$ 10,554,666	\$ 10,554,666	\$ 10,662,549	\$ (107,883)
Health				
Quality assurance - health services	\$ 817,467	\$ 817,467	\$ 968,685	\$ (151,218)
Healthy communities/behaviors	946,573	958,615	978,288	(19,673)
Disaster preparedness	45,277	47,787	56,449	(8,662)
Infectious disease	116,000	116,000	100,208	15,792
Health services - administration	471,580	474,380	317,536	156,844
Total health	\$ 2,396,897	\$ 2,414,249	\$ 2,421,166	\$ (6,917)
Total Expenditures	\$ 12,951,563	\$ 12,968,915	\$ 13,083,715	\$ (114,800)
Excess of Revenues Over (Under)				
Expenditures	\$ (10,550)	\$ (27,902)	\$ (104,511)	\$ (76,609)
Other Financing Sources (Uses)				
Transfers in	\$ 18,050	\$ 20,850	\$ 167,536	\$ 146,686
Transfers out	(7,500)	(7,500)	(7,500)	-
Total Other Financing Sources (Uses)	\$ 10,550	\$ 13,350	\$ 160,036	\$ 146,686
Net Change in Fund Balance	\$ -	\$ (14,552)	\$ 55,525	\$ 70,077
Fund Balance - January 1	5,464,020	5,464,020	5,464,020	-
Fund Balance - December 31	\$ 5,464,020	\$ 5,449,468	\$ 5,519,545	\$ 70,077

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2013**

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, 2013.

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund	\$ 22,413,846	\$ 23,481,350	\$ 1,067,504
Special Revenue Funds			
Road and Bridge	14,893,825	17,434,312	2,540,487
Health and Human Services	12,968,915	13,083,715	114,800

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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, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,003,058	\$ 2,003,058	\$ 2,012,383	\$ 9,325
Special assessments	10,405	10,405	6,344	(4,061)
Intergovernmental	20,738	20,738	28,757	8,019
Miscellaneous	34,600	34,600	31,590	(3,010)
Total Revenues	\$ 2,068,801	\$ 2,068,801	\$ 2,079,074	\$ 10,273
Expenditures				
Debt service				
Principal	\$ 2,287,600	\$ 2,287,600	\$ 2,287,600	\$ -
Interest	192,144	192,144	192,122	22
Administrative - fiscal charges	2,150	2,150	12,376	(10,226)
Total Expenditures	\$ 2,481,894	\$ 2,481,894	\$ 2,492,098	\$ (10,204)
Net Change in Fund Balance	\$ (413,093)	\$ (413,093)	\$ (413,024)	\$ 69
Fund Balance - January 1	4,781,423	4,781,423	4,781,423	-
Fund Balance - December 31	\$ 4,368,330	\$ 4,368,330	\$ 4,368,399	\$ 69

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**GOODHUECOUNTY
RED WING, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Economic Development Authority - to account for the financial activities of the Goodhue County Economic Development Authority.

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

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
DECEMBER 31, 2013**

	<u>Economic Development Authority</u>	<u>Waste Management</u>	<u>Total</u>
<u>Assets</u>			
Cash and pooled investments	\$ 196,228	\$ 185,845	\$ 382,073
Petty cash and change funds	-	75	75
Taxes receivable			
Prior	316	6,588	6,904
Accounts receivable	-	16,104	16,104
Loans receivable	993,120	-	993,120
Due from other governments	-	743	743
Prepaid items	-	4,414	4,414
Restricted assets			
Cash and pooled investments	-	218,395	218,395
Total Assets	<u>\$ 1,189,664</u>	<u>\$ 432,164</u>	<u>\$ 1,621,828</u>
 <u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 229	\$ 9,688	\$ 9,917
Salaries payable	-	17,709	17,709
Due to other governments	-	3,564	3,564
Total Liabilities	<u>\$ 229</u>	<u>\$ 30,961</u>	<u>\$ 31,190</u>
Deferred Inflows of Resources			
Unavailable revenue (Note 3.D.)	<u>\$ 531,535</u>	<u>\$ 5,039</u>	<u>\$ 536,574</u>
Fund Balances			
Nonspendable			
Prepaid items	\$ -	\$ 4,414	\$ 4,414
Restricted			
1998 Loan program	57,320	-	57,320
2010 Loan program	553,672	-	553,672
Landfill closure and postclosure	-	218,395	218,395
Committed			
Capital purchases	-	35,000	35,000
Economic development	46,908	-	46,908
Petty cash	-	75	75
Assigned for waste management	-	138,280	138,280
Total Fund Balances	<u>\$ 657,900</u>	<u>\$ 396,164</u>	<u>\$ 1,054,064</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 1,189,664</u>	<u>\$ 432,164</u>	<u>\$ 1,621,828</u>

**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT C-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Economic Development Authority</u>	<u>Waste Management</u>	<u>Total</u>
Revenues			
Taxes	\$ 12,874	\$ 317,949	\$ 330,823
Licenses and permits	-	7,605	7,605
Intergovernmental	253,456	8,771	262,227
Charges for services	-	48,947	48,947
Interest on investments	-	328	328
Miscellaneous	48,979	195,790	244,769
Total Revenues	<u>\$ 315,309</u>	<u>\$ 579,390</u>	<u>\$ 894,699</u>
Expenditures			
Current			
Sanitation	\$ -	\$ 706,612	\$ 706,612
Economic development	202,365	-	202,365
Total Expenditures	<u>\$ 202,365</u>	<u>\$ 706,612</u>	<u>\$ 908,977</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 112,944</u>	<u>\$ (127,222)</u>	<u>\$ (14,278)</u>
Other Financing Sources (Uses)			
Transfers in	10,000	83	10,083
Net Change in Fund Balance	<u>\$ 122,944</u>	<u>\$ (127,139)</u>	<u>\$ (4,195)</u>
Fund Balance - January 1	<u>534,956</u>	<u>523,303</u>	<u>1,058,259</u>
Fund Balance - December 31	<u><u>\$ 657,900</u></u>	<u><u>\$ 396,164</u></u>	<u><u>\$ 1,054,064</u></u>

**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT C-3

**BUDGETARY COMPARISON SCHEDULE
ECONOMIC DEVELOPMENT AUTHORITY SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 12,520	\$ 12,520	\$ 12,874	\$ 354
Intergovernmental	130	130	253,456	253,326
Miscellaneous	58,634	58,634	48,979	(9,655)
Total Revenues	\$ 71,284	\$ 71,284	\$ 315,309	\$ 244,025
Expenditures				
Current				
Economic development				
Community development	23,650	23,650	202,365	(178,715)
Excess of Revenues Over (Under) Expenditures	\$ 47,634	\$ 47,634	\$ 112,944	\$ 65,310
Other Financing Sources (Uses)				
Transfers in	10,000	10,000	10,000	-
Net Change in Fund Balance	\$ 57,634	\$ 57,634	\$ 122,944	\$ 65,310
Fund Balance - January 1	534,956	534,956	534,956	-
Fund Balance - December 31	\$ 592,590	\$ 592,590	\$ 657,900	\$ 65,310

**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT C-4

**BUDGETARY COMPARISON SCHEDULE
WASTE MANAGEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 316,779	\$ 316,779	\$ 317,949	\$ 1,170
Licenses and permits	7,600	7,600	7,605	5
Intergovernmental	123,330	123,330	8,771	(114,559)
Charges for services	67,400	67,400	48,947	(18,453)
Interest on investments	400	400	328	(72)
Miscellaneous	267,650	267,650	195,790	(71,860)
Total Revenues	\$ 783,159	\$ 783,159	\$ 579,390	\$ (203,769)
Expenditures				
Current				
Sanitation				
Solid waste	\$ 87,143	\$ 87,143	\$ 84,742	\$ 2,401
Recycling	477,292	477,292	426,883	50,409
Hazardous waste	128,102	128,102	46,559	81,543
Landfill	159,722	159,722	148,428	11,294
Total Expenditures	\$ 852,259	\$ 852,259	\$ 706,612	\$ 145,647
Excess of Revenues Over (Under) Expenditures	\$ (69,100)	\$ (69,100)	\$ (127,222)	\$ (58,122)
Other Financing Sources (Uses)				
Transfers in	-	-	83	83
Net Change in Fund Balance	\$ (69,100)	\$ (69,100)	\$ (127,139)	\$ (58,039)
Fund Balance - January 1	523,303	523,303	523,303	-
Fund Balance - December 31	\$ 454,203	\$ 454,203	\$ 396,164	\$ (58,039)

**GOODHUECOUNTY
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, 2013**

	Balance January 1	Additions	Deductions	Balance December 31
<u>FAMILY COLLABORATIVE FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 418,025	\$ 374,591	\$ 367,028	\$ 425,588
Due from other governments	48,980	134,144	158,649	24,475
Total Assets	\$ 467,005	\$ 508,735	\$ 525,677	\$ 450,063
<u>Liabilities</u>				
Due to other governments	\$ 467,005	\$ 508,735	\$ 525,677	\$ 450,063
 <u>TAXES AND PENALTIES FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,059,664	\$ 53,442,530	\$ 53,721,468	\$ 780,726
<u>Liabilities</u>				
Due to component unit	\$ 315	\$ 19,074	\$ 19,385	\$ 4
Due to other governments	1,059,349	53,423,456	53,702,083	780,722
Total Liabilities	\$ 1,059,664	\$ 53,442,530	\$ 53,721,468	\$ 780,726

**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, 2013**

	Balance January 1	Additions	Deductions	Balance December 31
<u>OTHER AGENCY FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 197,714	\$ 1,877,377	\$ 1,953,225	\$ 121,866
Accounts receivable	35,782	149,956	156,004	29,734
Total Assets	\$ 233,496	\$ 2,027,333	\$ 2,109,229	\$ 151,600
<u>Liabilities</u>				
Due to other governments	\$ 233,496	\$ 2,027,333	\$ 2,109,229	\$ 151,600
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,675,403	\$ 55,694,498	\$ 56,041,721	\$ 1,328,180
Accounts receivable	35,782	149,956	156,004	29,734
Due from other governments	48,980	134,144	158,649	24,475
Total Assets	\$ 1,760,165	\$ 55,978,598	\$ 56,356,374	\$ 1,382,389
<u>Liabilities</u>				
Due to component unit	\$ 315	\$ 19,074	\$ 19,385	\$ 4
Due to other governments	1,759,850	55,959,524	56,336,989	1,382,385
Total Liabilities	\$ 1,760,165	\$ 55,978,598	\$ 56,356,374	\$ 1,382,389

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, 2013**

	General Fund	Reconciliation	Statement of Net Position
<u>Assets</u>			
Cash and pooled investments	\$ 255,906	\$ -	\$ 255,906
Accrued interest receivable	165	-	165
Due from other governments	270	-	270
Due from primary government	4	-	4
Capital assets			
Not depreciable - land	-	378,550	378,550
Total Assets	\$ 256,345	\$ 378,550	\$ 634,895
<u>Fund Balance/Net Position</u>			
Fund Balance			
Unassigned	\$ 256,345	\$ (256,345)	
Net Position			
Net investment in capital assets		378,550	\$ 378,550
Unrestricted		256,345	256,345
Total Fund Balance/Net Position	\$ 256,345	\$ 378,550	\$ 634,895
Reconciliation of the General Fund Balance to Net Position			
Fund Balance - Governmental Fund			\$ 256,345
Capital assets are reported in the Statement of Net Position but not on the fund balance sheet.			378,550
Net Position - Governmental Activities			\$ 634,895

**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, 2013**

	General Fund	Reconciliation	Statement of Activities
Revenues			
Taxes	\$ 19,517	\$ -	\$ 19,517
Intergovernmental	541	-	541
Investment earnings	1,907	-	1,907
Total Revenues	\$ 21,965	\$ -	\$ 21,965
Expenditures/Expenses			
Current			
General government	9,466	-	9,466
Excess of Revenues Over (Under) Expenditures/Expenses	\$ 12,499	\$ -	\$ 12,499
Fund Balance/Net Position - January 1	243,846	378,550	622,396
Fund Balance/Net Position - December 31	\$ 256,345	\$ 378,550	\$ 634,895

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, 2013**

Shared Revenue

State

Highway users tax	\$ 7,250,568
PERA rate reimbursement	61,078
Disparity reduction aid	29,143
Police aid	280,489
County program aid	1,358,998
Market value credit	276,351
Indian casino aid	67,510
Enhanced 911	127,808
	127,808

Total shared revenue **\$ 9,451,945**

Reimbursement for Services

State

Minnesota Department of Human Services	\$ 1,243,308
	1,243,308

Payments

Local

Local contributions	\$ 227,099
Payments in lieu of taxes	228,917
	228,917

Total payments **\$ 456,016**

Grants

State

Minnesota Department/Board of	
Corrections	\$ 249,203
Employment and Economic Development	546,048
Health	271,071
Human Services	1,277,932
Natural Resources	113,278
Public Safety	188,250
Transportation	1,361,703
Veterans Affairs	6,498
Water and Soil Resources	126,211
Peace Officer Standards and Training Board	14,695
Pollution Control Agency	6,121
	6,121

Total state **\$ 4,161,010**

Federal

Department of	
Agriculture	\$ 372,007
Interior	11,894
Justice	14,295
Transportation	405,241
Health and Human Services	2,392,813
Homeland Security	124,402
	124,402

Total federal **\$ 3,320,652**

Total state and federal grants **\$ 7,481,662**

Total Intergovernmental Revenue **\$ 18,632,931**

**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT F-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

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	\$ 168,310
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	262,513
Total U.S. Department of Agriculture		\$ 430,823
U.S. Department of the Interior		
Direct Payments in Lieu of Taxes	15.226	\$ 11,894
U.S. Department of Justice		
Direct State Criminal Alien Assistance Program	16.606	\$ 9,868
Bulletproof Vest Partnership Program	16.607	4,427
Total U.S. Department of Justice		\$ 14,295
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 329,735
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	42,459
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	12,389
Total U.S. Department of Transportation		\$ 384,583
U.S. Department of Health and Human Services		
Medical Reserve Corps Small Grant Program	93.008	\$ 11,000
Passed Through Minnesota Department of Health Public Health Emergency Preparedness	93.069	38,877
Universal Newborn Hearing Screening	93.251	225
Immunization Cooperative Agreements	93.268	3,000
Temporary Assistance for Needy Families	93.558	47,462
(Total Temporary Assistance for Needy Families 93.558 \$338,781)		
Maternal and Child Health Services Block Grant to the States	93.994	40,446

**GOODHUE COUNTY
RED WING, MINNESOTA**

**EXHIBIT F-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

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	93.556	5,817
Temporary Assistance for Needy Families	93.558	291,319
(Total Temporary Assistance for Needy Families 93.558 \$338,781)		
Child Support Enforcement	93.563	1,008,686
Refugee and Entrant Assistance - State-Administered Programs	93.566	678
Child Care and Development Block Grant	93.575	23,467
Stephanie Tubbs Jones Child Welfare Services Program	93.645	2,908
Foster Care - Title IV-E	93.658	137,195
Social Services Block Grant	93.667	186,178
Chafee Foster Care Independence Program	93.674	5,853
Children's Health Insurance Program	93.767	146
Medical Assistance Program	93.778	951,312
		<u>951,312</u>
Total U.S. Department of Health and Human Services		\$ 2,754,569
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	\$ 88,511
Passed Through Minnesota Department of Public Safety		
Emergency Management Performance Grants	97.042	1,199
Passed Through Southeastern Minnesota Emergency Communications Board		
Interoperable Emergency Communications	97.055	3,809
Passed Through Southeastern Minnesota Region One Homeland Security and Emergency Management Board		
Homeland Security Grant Program	97.067	1,688
		<u>1,688</u>
Total U.S. Department of Homeland Security		\$ 95,207
Total Federal Awards		\$ 3,691,371

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**GOODHUE COUNTY
RED WING, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

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, 2013. 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 position, 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.

**GOODHUE COUNTY
RED WING, MINNESOTA**

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue (Exhibit F-1)	\$ 3,320,652
Grants deferred in 2012 and recognized in 2013	
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)
Grants deferred in 2013	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (CFDA #10.561)	58,816
State and Community Highway Safety (CFDA #20.600)	2,885
Temporary Assistance for Needy Families (CFDA #93.558)	41,031
Child Support Enforcement (CFDA #93.563)	114,132
Child Care and Development Block Grant (CFDA #93.575)	1,717
Foster Care - Title IV-E (CFDA #93.658)	18,207
Medical Assistance Program (CFDA #93.778)	195,907
Expenditures per Schedule of Expenditures of Federal Awards (Exhibit F-2)	\$ 3,691,371

5. Subrecipients

During 2013, Goodhue County did not pass any federal money to subrecipients.

**Other Information
Section**

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**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT G-1

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

	2012		2013		2014	
	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)
Tax Capacity						
Real property	\$ 56,606,119		\$ 58,769,961		\$ 62,384,071	
Personal property	808,867		905,916		916,571	
Tax increment	(942,736)		(784,517)		(469,659)	
Net Tax Capacity	\$ 56,472,250		\$ 58,891,360		\$ 62,830,983	
Taxes Levied for County Purposes						
General	\$ 16,208,518	29.755	\$ 15,784,184	27.800	\$ 16,510,028	27.133
Road and Bridge	3,663,854	6.512	3,622,414	6.172	3,200,234	5.110
Health and Human Services	4,458,089	7.923	5,173,555	8.815	5,367,654	8.571
Economic Development Authority	12,683	0.023	12,650	0.022	12,650	0.020
Debt Service	2,036,830	3.607	2,023,796	3.436	1,968,597	3.134
Waste Management	306,884	0.545	320,059	0.545	339,850	0.543
Total Taxes Levied for County Purposes	\$ 26,686,858	48.365	\$ 26,936,658	46.790	\$ 27,399,013	44.511
Tax Capacity - Light and Power						
Transmission	\$ 46,010		\$ 54,446		\$ 54,596	
Distribution	6,364		7,512		7,534	
Total Tax Capacity - Light and Power	\$ 52,374		\$ 61,958		\$ 62,130	
Light and Power Tax Levies (distributed in accordance with Minn. Stat. § 273.40, as amended)						
Transmission	\$ 51,921		\$ 59,001		\$ 56,631	
Distribution	7,182		8,140		7,815	
Total Light and Power Tax Levies	\$ 59,103	112.847	\$ 67,141	108.366	\$ 64,446	103.727

(Unaudited)

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**GOODHUE COUNTY
RED WING, MINNESOTA**

*EXHIBIT G-1
(Continued)*

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

	2012		2013		2014	
	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)
Market Value - Light and Power						
Transmission	\$ 2,338,000		\$ 2,759,800		\$ 2,767,300	
Distribution	318,000		375,600		376,700	
Total Market Value - Light and Power	<u>\$ 2,656,000</u>		<u>\$ 3,135,400</u>		<u>\$ 3,144,000</u>	
Light and Power Tax Market Value Levies						
Transmission	\$ 4,610		\$ 5,269		\$ 5,235	
Distribution	627		717		713	
Total Light and Power Tax Market Value Levies	<u>\$ 5,237</u>	0.197	<u>\$ 5,986</u>	0.191	<u>\$ 5,948</u>	0.189
Market Value - State General Tax						
Transmission	\$ 46,010		\$ 54,446		\$ 54,596	
Distribution	6,364		7,512		7,534	
Total Market Value - State General Tax	<u>\$ 52,374</u>		<u>\$ 61,958</u>		<u>\$ 62,130</u>	
State General Tax Market Value Levies						
Transmission	\$ 23,511		\$ 28,597		\$ 28,477	
Distribution	3,252		3,946		3,930	
Total State General Tax Market Value Levies	<u>\$ 26,763</u>	51.100	<u>\$ 32,543</u>	52.523	<u>\$ 32,407</u>	52.160
Special Assessments						
Belle Creek Watershed Improvement Bonds	<u>\$ 20,000</u>	0.861	<u>\$ 20,000</u>	0.799	<u>\$ 20,000</u>	0.673
Percentage of Tax Collections for All Purposes	99.02%		99.34%			

(Unaudited)

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**GOODHUE COUNTY
RED WING, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

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 program is:

Child Support Enforcement

CFDA #93.563

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 ITEMS NOT RESOLVED

Finding 2008-003

Segregation of Duties - County Departments

Criteria: Internal controls should be designed to provide for an adequate segregation of duties so that no one individual handles a transaction from inception to completion.

Condition: Several of the County's departments that collect fees lack proper segregation of duties. Specifically, we noted this issue in our review of receipting procedures in the Recorder's Office.

Context: Due to the limited number of office personnel within the County, segregation of the accounting function 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 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 indicated it is not cost-effective to hire additional qualified accounting staff in each small fee office in order to segregate duties.

Recommendation: We recommend the County's elected officials and management be aware of the lack of segregation of duties of the accounting function and, where possible, implement oversight procedures to ensure 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.

Finding 2012-001

Segregation of Duties - IFS-General Ledger System Security Controls

Criteria: Internal controls should be designed to provide for an adequate segregation of functions and responsibilities so no one person has incompatible duties which would permit the perpetration and concealment of material irregularities.

Condition: The IFS-General Ledger System was programmed to allow individuals with inquiry only access to the general ledger user maintenance security function the ability to make user maintenance changes. During our review of general ledger security access, we noted the individual assigned inquiry access to the County user maintenance function was also involved in the County general ledger accounting function.

Content: Duties of personnel with the ability to make County user maintenance security changes should be segregated from duties of personnel with involvement in the general ledger accounting function to ensure the integrity of the data stored in the County's information system.

Effect: The ability to make County general ledger user maintenance security changes is incompatible with involvement in the general ledger accounting function because there would be unlimited access to make changes to the accounting records.

Cause: The County indicated it has been working with the vendor to change the software programming so personnel with inquiry only access to the general ledger security function do not have the ability to make changes to the security function.

Recommendation: We recommend duties of personnel with the ability to make County user maintenance security changes be segregated from duties of personnel involved with the general ledger accounting function.

Client's Response:

The County appropriately segregated duties in regards to user maintenance security. The vendor is working to resolve the glitch in the software that allows a user with inquiry access to make changes within user maintenance security.

ITEMS ARISING THIS YEAR

Finding 2013-001

Segregation of Duties - Payroll Maintenance

Criteria: Controls in place over operations should be designed to monitor maintenance changes entered into the payroll system.

Condition: Personnel responsible for entering maintenance changes into the payroll accounting system are also responsible for processing payroll payments to employees. Procedures were established to have personnel independent of the payroll payment process review a listing (Audit Log) of maintenance changes to the payroll accounting system after each payroll is processed. In two of the nine payrolls tested, the Audit Logs were not reviewed by personnel independent of the payroll payment process.

Context: When personnel have access to make maintenance changes to the payroll accounting system and process payroll payments, unauthorized changes or payments could be made to the payroll accounting system.

Effect: When established internal control procedures are not followed, there is an increased risk that errors or irregularities will not be detected in a timely manner.

Cause: The County indicated the Human Resources Department was in a transition period due to changes in staff.

Recommendation: We recommend an individual independent of the payroll payment process review maintenance changes to the payroll accounting system after each payroll on a timely basis.

Client's Response:

The Human Resource Department will strive to review these maintenance changes in a timely manner.

Finding 2013-002

Segregation of Duties - Disbursements

Criteria: Controls in place over operations should be designed to provide reasonable assurance material errors will be prevented or detected in a timely manner. Check Register Reports should be reviewed to the original invoice to ensure payments are for approved County expenditures. These procedures should be performed by an employee independent of the vendor payment process in a timely manner.

Condition: The General, Highway, and Public Health Departments do not have a control in place to prevent employees who process vendor payments into the accounting system from adding and paying unapproved expenditures via County check. In the Human Services Department, an employee independent of the vendor payment process was reviewing the Check Register Report to original invoices to ensure payments are for approved County expenditures, but this review was not documented.

Context: County procedures indicate vendor invoices are to be approved at the departmental level prior to payment. Approved vendor invoices are sent to the Auditor/Treasurer Department to be paid. Personnel within the Auditor/Treasurer Department enter the information from these approved invoices into the accounting system and issue checks to vendors.

Effect: The absence of internal control procedures increases the risk that errors or irregularities will not be detected in a timely manner.

Cause: The County indicated, due to available resources, it was not able to segregate duties.

Recommendation: We recommend an employee independent of the vendor payment process review the Check Register Report to original invoices to ensure payments are for approved County expenditures. This review should be documented.

Client's Response:

The County will look for ways to implement the additional reviews recommended.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Safe Driving Class (2008-007)

During our previous audit, we noted that Goodhue County had established a Driver Awareness Class option in lieu of issuance or court filing of a state uniform traffic ticket. The County handed out a Driving Awareness Class brochure with “simpler” traffic tickets. Motorists who were given brochures were given the option of paying \$75 and attending a two-hour Driver Awareness Class in lieu of having their citations prosecuted.

Resolution

The County complied with Minn. Stat. ch. 169, including Minn. Stat. § 169.999, and discontinued offering a safety class in lieu of issuance or court filing of a state uniform traffic ticket in January 2014.



REBECCA OTTO
STATE AUDITOR

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

Independent Auditor's Report

Board of County Commissioners
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, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 18, 2014.

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 2008-003, 2012-001, 2013-001, and 2013-002, 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 in connection with the audit of the County's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because 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*. 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.

Goodhue County's Response to Findings

Goodhue County's responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The County's responses were not subjected 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

September 18, 2014

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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 the County's major federal program for the year ended December 31, 2013. Goodhue County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with 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 Goodhue County's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and 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 the 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 its major federal program for the year ended December 31, 2013.

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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with 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 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

September 18, 2014

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR