

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

GOODHUE COUNTY
RED WING, MINNESOTA

YEAR ENDED DECEMBER 31, 2011

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, 2011



**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 ORGANIZATIONAL CHART

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

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Goodhue County

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Goodhue County, as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Goodhue County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the 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, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1.D.10. to the financial statements, during the year ended December 31, 2011, the County adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

Page 2

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. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Goodhue County's basic financial statements as a whole. The supplementary information, including the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This 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 presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2012, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 31, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**GOODHUE COUNTY
RED WING, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2011

(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, 2011. We encourage readers to consider the information presented here in conjunction with the County's financial activity and performance.

HIGHLIGHTS

- On December 31, 2011, Goodhue County's total assets exceed liabilities by \$160,691,673, of which \$127,432,667 is invested in capital assets (net of related debt) and \$2,806,336 is restricted to specific purposes. This leaves year-end unrestricted net assets of \$30,452,670.
- Goodhue County's net assets increased by \$5,023,437 from current operations for the year ended December 31, 2011 (\$4.2 million attributed to increases in total assets and almost \$0.8 million attributed to decreases in total liabilities). There was a significant increase of \$14.5 million to the County's Infrastructure on behalf of Public Works. Approximately \$8.7 million of the increase was due to the finalization of all outstanding 2010 construction in progress from Public Works; the other \$5.7 million was from new 2011 construction.
- Overall program expenses for 2011 were \$44,480,048--an increase of \$1,671,471 (3.9 percent) from 2010. From a percentage standpoint, the largest area of increase was in Sanitation. Program revenues decreased by 3.6 percent, or \$760,597, during 2011. The largest area of decrease in dollars can be found in Fees, Charges, Fines, and Other. General revenues contributed \$28,845,253 towards program expenses, an increase of \$631,461 from the previous year.
- On September 23, 2010, there was a major flood event in southern Minnesota. A few areas of the County were impacted, with some damage to both personal and commercial property. The County, along with the Minnesota Department of Employment and Economic Development, has offered flood loans through the Minnesota Investment Fund. During 2011, the County issued loans of \$828,000 to local businesses for economic recoveries. It is expected that 50 percent of these borrowed proceeds will be returned to Goodhue County over the next ten years. These dollars will be committed for the purpose of assistance with other Economic Development projects within the County.

- On June 14, 2012, there were storms which resulted in wind damage and flooding in many areas of Minnesota. Goodhue County was impacted in a few southwestern townships as well as the City of Cannon Falls and Welch Township. The County had one major road damaged with other damage to a few rural farms, a couple of small businesses, and some residential property. At the present time, FEMA is investigating the situation throughout the state. Losses and possible recovery grants and other dollars are yet to be determined, but losses in Goodhue County are expected to be in the \$2.0 million range.
- In 2011, the County paid down \$1,120,533 in long-term debt to help reduce total liabilities by \$781,063. The final levy for current County debt will take place in 2013 with the final payment of about \$2.0 million paid in February 2014. Future bonding needs discussed in the following bullets will replace this debt levy. The County does not anticipate an increase or decrease to the net debt levy when the old debt is paid or the new debt is incurred.
- In February 2011, the County was awarded approval from the Minnesota Management & Budget Office to issue Qualified Energy Conservation Bonds (QECB) of up to \$1.7 million for Government Center energy efficiency upgrades and renovations (Government Center Energy Efficiency Project). In 2011, due to the uncertainty of the timing of the project, the County passed a reimbursement resolution and financed the project with fund balance until bonds could be sold. As of June 2012, the project is complete, and the sale of \$1,295,000 of reimbursement bonds is scheduled for August 2012.
- The County Board intends to sell approximately \$6.0 million of bonds in August 2012. These are for reimbursements of a QECB project (see above) and 2011 highway projects as well as local funding of some 2012 and 2013 highway projects. The Board has requested the levy burden on local taxpayers remain stable as these and future bonds are structured for payment.
- For the last year, the County Board has requested administration and staff address the need to replace the current Public Health facility which holds Human Services staff. In the spring of 2012, that was put on hold due to regional discussion of a combined service area for Human Services which could reduce the number of local staff needed. In June 2012, a decision was made not to proceed with the 12-county Human Services model. Also in June, the Public Health building had to be vacated due to OSHA concerns. This has spurred the Board to accelerate long-range planning. A final decision of what to do will be based on determining if there is a potential buyer for the Citizen's Building which houses the remaining HHS staff, or not. It is anticipated there will be additional bonds sold in 2013 or 2014 for either a new building or remodeling of current buildings to meet the work space needs of all County staff.

- Concurrently, the Board is doing long-range planning for highway needs. U.S. Hwy. 52, which runs north and south in the County, has been updated with federal, state, and local dollars both north and south of Goodhue County. Discussions continue in Washington, DC, and St. Paul to fund a section within Cannon Falls as well as some deadly interchanges south of the city. Once a commitment is made from the two other governmental units, the County could potentially have additional bonding needs to complete the projects.
- With the adoption of GASB 54 and a new policy on fund balance, the County now reports fund balance as nonspendable, restricted, committed, assigned, or unassigned with emphasis on review of the unassigned fund balance in the General Fund. At the end of 2011, the General Fund's unassigned fund balance was \$7,680,519, which represents approximately 32 percent of expenditures for the year (\$24,206,880). In previous years, this fund balance comparison would be made with the unreserved, undesignated balance. In 2010, the General Fund's unreserved, undesignated fund balance was \$10,346,978, which was approximately 44 percent of expenditures for the year. The reason for the decline in the 2011 unassigned fund balance when compared to the 2010 unreserved, undesignated fund balance can be attributed to two main factors: (1) the 2011 spend-down of fund balance for funding of the Government Center Energy Efficiency Project and (2) the commitment of fund balance for items not previously designated.
- Since 1968, Goodhue County and Dakota County have jointly owned 40 percent and 60 percent, respectively, of a dam located on Lake Byllesby. Expected upgrades necessary to meet the requirements of the Federal Energy Regulatory Commission were estimated to cost \$4.0 to \$5.0 million. The Board was not interested in continuing with ownership and, on January 7, 2011, Goodhue County sold its 40 percent share of the dam to Dakota County for \$1. A Joint Powers Agreement with Dakota County, the City of Cannon Falls, and Goodhue County relating to quantity and location of sirens for a warning system remains in place to assist with public safety in all three jurisdictions.
- Throughout 2011, efforts continue with the integration of the employees, services, and finances of Public Health and Social Services to better serve the needs of their customers within the County. As of July 1, 2010, they became Goodhue County Health and Human Services (HHS). Staff has begun relocations in efforts to gain efficiency within the organization, and the County continues to look at the building needs for this new division. In 2009, ending fund balances for Public Health was \$1,440,711, and Human Services was \$2,696,267. The HHS fund balance as of December 31, 2010, was \$5,438,508 and increased by \$69,319 to \$5,507,827 as of December 31, 2011.

- Environmental concerns continue to challenge Goodhue County. During 2009 - 2011, the County was involved in revising and supporting its local ordinance regarding wind energy. The Minnesota Public Utilities Commission (PUC) chose not to apply the local ordinance to a large wind energy project within the County. The County requested reconsideration and was told the PUC would follow its criteria which was more lenient than the County's. In fall 2011, the County chose not to appeal this decision. In June 2012, the Minnesota Court of Appeals issued an unpublished opinion supporting the setback decision of the Minnesota PUC.
- The geographic area of Goodhue County has been found to house silica sand used in the controversial natural gas mining 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. The County has a moratorium on permitting the mining of this sand until late summer of 2012. Starting in 2011, the County Land Use and Attorney Departments, along with a committee representing both sides, have spent a large amount of time studying the issue. Unlike wind energy where the PUC could choose to ignore the County ordinance, the County Aggregate Ordinance will be the determining factor of if/how this sand is mined within the County.

OVERVIEW OF THE FINANCIAL STATEMENTS

The three main sections of this report are introductory, financial, and supplementary. The introductory section contains the County's organization structure and principal officials. The financial section includes the MD&A and is intended to serve as a road map 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 Assets (Exhibit 1) presents information on all County assets (what we own) and liabilities (what we owe). The difference between assets and liabilities is reported as net assets. Over time, changes in net assets may be an indication of an improving or deteriorating County financial position. Other nonfinancial 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 assets 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 Assets 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 government-wide financial statements provide two other sources of information:

1. Budgetary comparisons:

Goodhue County adopts an annual budget for the General Fund, all other special revenue funds, and the Debt Service Fund. Budgetary comparison schedules are provided for 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 assets may be a useful indicator of a government's financial position over time. As of December 31, 2011, assets exceeded liabilities by \$160,691,673. The following table provides a summary of Goodhue County's governmental net assets, which increased \$5,023,437 from the previous year.

Table 1
Net Assets

	Governmental Activities		
	2011	2010	\$ Change
Current and other assets	\$ 41,741,663	\$ 41,589,743	\$ 151,920
Capital assets	133,034,002	128,943,548	4,090,454
Total Assets	\$ 174,775,665	\$ 170,533,291	\$ 4,242,374
Long-term debt outstanding	\$ 11,122,421	\$ 12,242,954	\$ (1,120,533)
Other liabilities	2,961,571	2,622,101	339,470
Total Liabilities	\$ 14,083,992	\$ 14,865,055	\$ (781,063)
Net Assets			
Invested in capital assets, net of debt	\$ 127,432,667	\$ 121,777,217	\$ 5,655,450
Restricted	2,806,336	3,024,708	(218,372)
Unrestricted	30,452,670	30,866,311	(413,641)
Total Net Assets	\$ 160,691,673	\$ 155,668,236	\$ 5,023,437

The largest portion of Goodhue County's net assets, 79 percent, or approximately \$127.5 million, represents investments in capital assets, less any related debt used to acquire those assets. Capital assets are investments in land, buildings, and 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 \$30.5 million of net assets, or 19 percent, represents unrestricted net assets that may be used to meet ongoing obligations to citizens and creditors. In 2011, unrestricted net assets decreased by \$413,641.

Governmental Activities

Reflected in Table 2 are the changes in revenues and expenses sorted by activity. Total revenue for County governmental activities in 2011 decreased by 0.3 percent, and expenses increased by 3.9 percent.

Table 2
Changes in Net Assets

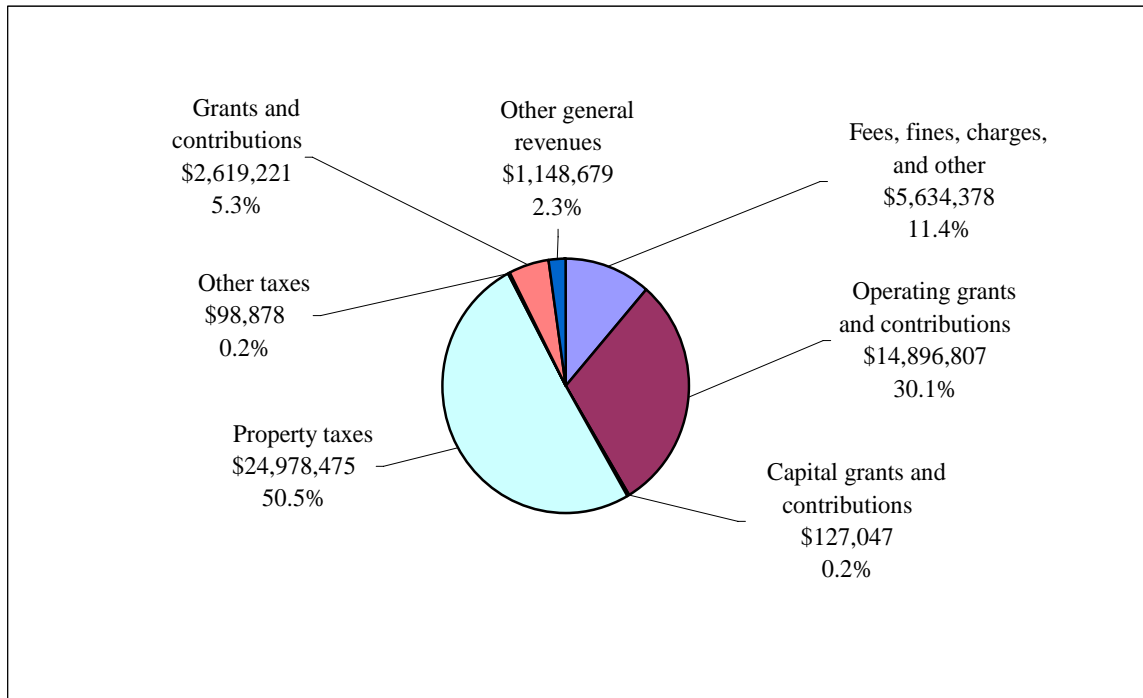
	Governmental Activities			
	2011	2010	\$ Change	% Change
Revenues				
Program revenues				
Fees, fines, charges, and other	\$ 5,634,378	\$ 6,699,639	\$ (1,065,261)	(15.9)
Operating grants and contributions	14,896,807	14,411,025	485,782	3.4
Capital grants and contributions	127,047	308,165	(181,118)	(58.8)
General revenues				
Property taxes	24,978,475	24,792,341	186,134	0.8
Other taxes	98,878	67,922	30,956	45.6
Grants and contributions	2,619,221	2,433,012	186,209	7.7
Other general revenues	1,148,679	920,517	228,162	24.8
Total Revenues	\$ 49,503,485	\$ 49,632,621	\$ (129,136)	(0.3)
Program expenses				
General government	\$ 9,508,528	\$ 9,586,054	\$ (77,526)	(0.8)
Public safety	11,664,141	11,146,247	517,894	(4.6)
Highways and streets	7,989,220	7,380,527	608,693	8.2
Sanitation	1,086,288	723,854	362,434	50.0
Human services	9,585,301	8,875,645	709,656	8.0
Health	2,947,593	2,889,026	58,567	2.0
Culture and recreation	632,536	777,308	(144,772)	(18.6)
Conservation of natural resources	699,951	796,319	(96,368)	(12.1)
Economic development	60,189	287,518	(227,329)	(79.1)
Interest	306,301	346,079	(39,778)	(11.5)
Total Program Expenses	\$ 44,480,048	\$ 42,808,577	\$ 1,671,471	3.9
Increase (Decrease) in Net Assets	\$ 5,023,437	\$ 6,824,044	\$ (1,800,607)	(26.4)
Net Assets - January 1	155,668,236	148,844,192	6,824,044	4.6
Net Assets - December 31	\$ 160,691,673	\$ 155,668,236	\$ 5,023,437	3.2

Operating grants and contributions for 2011 include just over \$1.0 million that the County received from the Minnesota Department of Employment and Economic Development to financially assist local businesses in their economic recoveries.

Total program expenditures reflect a net increase of 3.9 percent. Sanitation's increase of \$362,434 can be attributed to equipment purchases and changes to the landfill postclosure care liability. Program decreases from the previous year ranged from 0.8 to 79.0 percent.

Overall, County governmental program revenues decreased from \$21,418,829 in 2010 to \$20,658,232 in 2011, with a large decrease in Fees, Fines, Charges, and Other. Fees, fines, charges, and other revenues decreased by \$1,065,261, or 15.9 percent, from 2010 to 2011. The County paid for the remaining “public benefit” portion of governmental activities with 2011 general revenue dollars of \$28,845,253, up \$631,461 from 2010. General revenues, which are made up of primarily taxes, also include grants and the sale of capital assets.

**Governmental Activities
Revenues by Source**



Per Table 2, one can see the cost of all governmental activities in 2011 was \$44,480,048, compared to \$42,808,577 in 2010. However, as shown in the Statement of Activities (Exhibit 2), not all of this is paid for with County taxes. Of the cost, \$5,634,378 was paid by those who directly benefited from the programs. For example, direct users are charged things such as building permit fees, home health fees, recording fees, inmate boarding fees, etc. Another \$15,023,854 was covered by other governments and organizations that subsidized either a specific program or general operations with operating or capital grants and contributions. Some examples of grants received are State Construction Aid; County Program Aid; State Police Aid; Probation Officer Salary Reimbursements; Women, Infants, and Children; and other Public Health and Human Services programs. The total amount financed for governmental activities through County general revenues was \$28,845,253.

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.

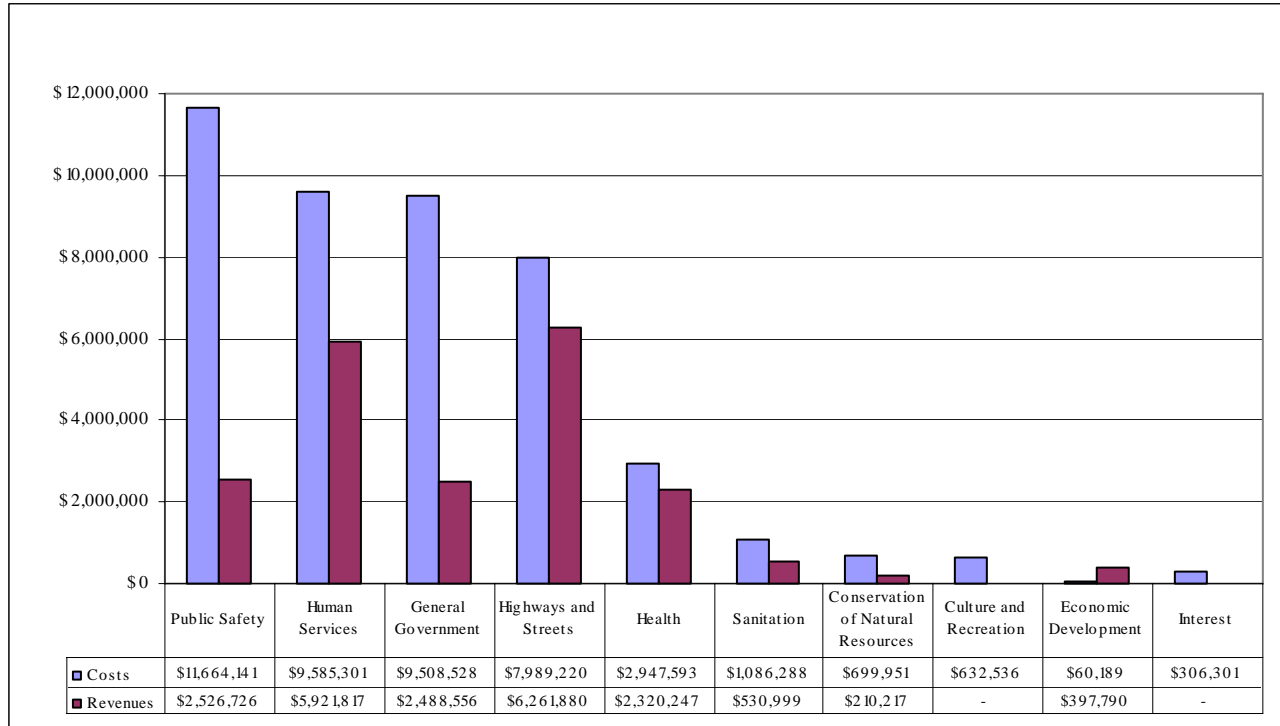
**Table 3
Governmental Activities
Costs of Services**

	Total Cost of Services		
	2011	2010	\$ Change
Public safety	\$ 11,664,141	\$ 11,146,247	\$ 517,894
Human services	9,585,301	8,875,645	709,656
General government	9,508,528	9,586,054	(77,526)
Highways and streets	7,989,220	7,380,527	608,693
Health	2,947,593	2,889,026	58,567
All others	2,785,265	2,931,078	(145,813)
Totals	\$ 44,480,048	\$ 42,808,577	\$ 1,671,471

	Net Cost of Services		
	2011	2010	\$ Change
Public safety	\$ 9,137,415	\$ 7,830,912	\$ 1,306,503
Human services	3,663,484	2,206,865	1,456,619
General government	7,019,972	7,303,472	(283,500)
Highways and streets	1,727,340	1,647,934	79,406
Health	627,346	613,842	13,504
All others	1,646,259	1,786,723	(140,464)
Totals	\$ 23,821,816	\$ 21,389,748	\$ 2,432,068

The net cost of services increased \$2,432,068, or 11.37 percent, compared to the previous year. The following chart represents, by program, the costs incurred for these County services and the program revenues received in conjunction with those services. The difference leads to the amount of tax revenues needed to help offset operational costs.

**Governmental Activities
Costs and Program Revenues**



Fund Level Financial Analysis

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

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

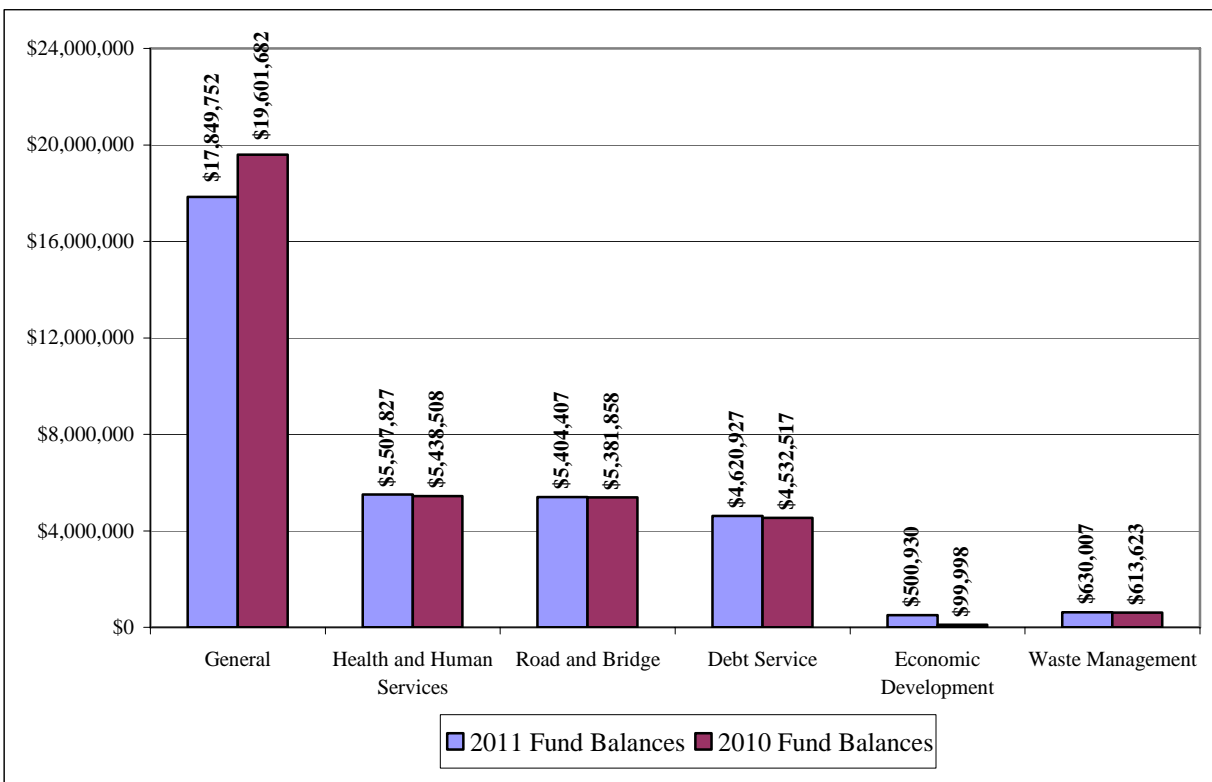
The focus of Goodhue County’s governmental funds is to provide information on near-term inflows, outflows, and balances of available resources. Therefore, the timing of cash flows is taken into account in the governmental fund financial statements, while it is disregarded in the government-wide statements.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

The County's Funds

Goodhue County utilizes five major governmental funds. These funds are: (1) General, (2) Road and Bridge Special Revenue, (3) Health and Human Services Special Revenue, (4) Economic Development Fund, and (5) 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 \$34,513,850. This represents a minimal \$1,154,336 decrease (3.24 percent) from December 31, 2010. Maintaining a fund balance for cash flow purposes will be very important as sources of revenue from other governments due to national, state, and local economic factors.

**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 \$1,751,930, or 8.94 percent, in 2011. This was due to the utilization of fund balance to finance the Government Center Energy Efficiency Project until the approved Qualified Energy Conservation Bonds were sold. The sale of these bonds is scheduled for August 2012, and proceeds will be deposited back into the General Fund.

The Road and Bridge Special Revenue Fund accounts for maintenance and improvements to the infrastructure of the County. The \$5.4 million fund balance at the end of 2011 represented a slight increase of \$22,549 from 2010.

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 \$5.51 million fund balance at the end of 2011, up \$69,319 from 2010. The fund continues to monitor its spending, as approximately half of its revenue comes from other governmental sources. For the last two years, 12 counties in southeastern Minnesota have studied the establishment of a Service District for Human Services in the region. In June 2012, a decision was made not to proceed with the 12-county Human Services model; however, the County would like to continue working with the concept but on a smaller scale. Goodhue County continues to monitor its revenue and expenditures closely with no changes expected to largely alter the fund balance.

The Economic Development Fund is used to account for various economic activities including the loans made to provide assistance with flood-related expenditures after the 2010 flood. Repayments from these loans will go into a revolving loan program within this Fund.

The Debt Service Fund contains resources designated for the repayment of debt obligations - yearly principal and interest payments on existing bonds. Most of these funds are derived from tax revenues. The fund had a \$4.6 million fund balance at the end of 2011, which was \$88,410 more than the previous 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, 2011, the County's General Fund actual expenditures were \$1,613,916 more than the projected budget. The biggest areas of budget overages can be found in Buildings and Plant (\$1,325,086) and Sheriff (\$475,869). The overage in Buildings and Plant is due to the unbudgeted Government Center Energy Efficiency Project. The overage in the Sheriff's Office is due to the continuation of the 800 MHz Radio Project. Even though some of the expenditures are unbudgeted, most of the revenues are unbudgeted as well. The project is heavily dependent on the Southeastern MN Regional Radio Board for ongoing funding.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2011, the County had \$133,034,002 invested in a broad range of capital assets, including land, buildings, equipment, and infrastructure. (See Table 4 below.) This represents a net increase of \$4,090,454, much of which is due to the replacement of infrastructure within Public Works which is reflected as an increase to Construction in Progress.

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

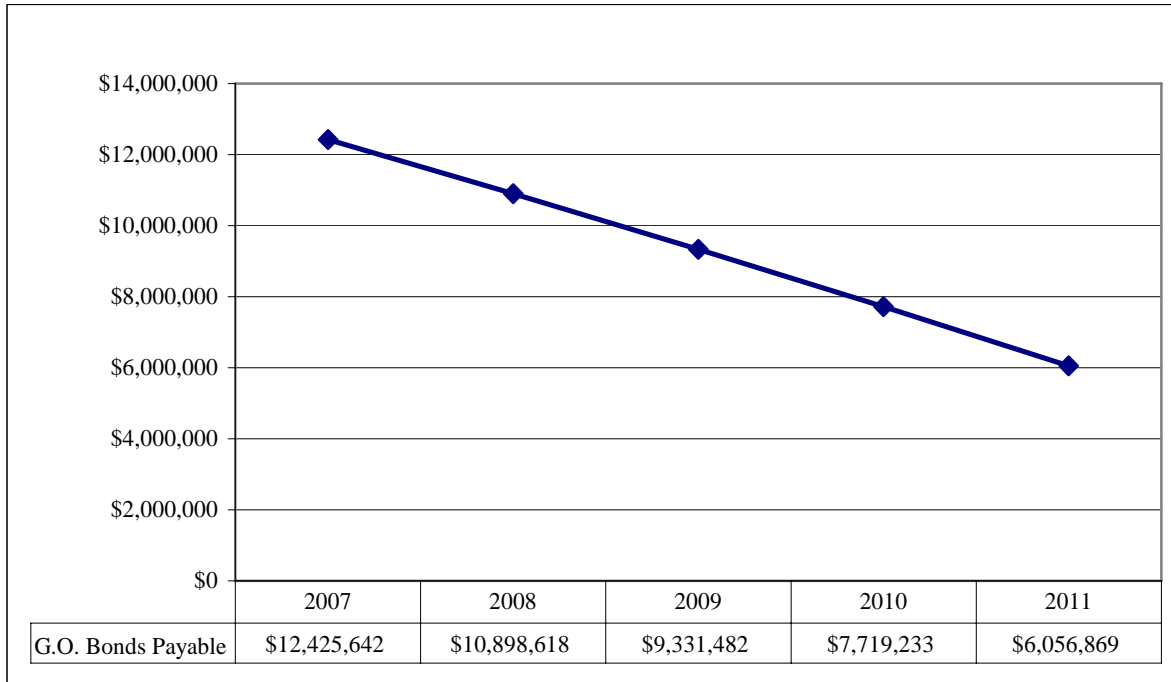
	Governmental Activities		
	2011	2010	\$ Change
Land	\$ 7,954,135	\$ 7,932,500	\$ 21,635
Construction in progress	6,143,520	12,137,675	(5,994,155)
Buildings and land improvements	23,050,639	23,965,172	(914,533)
Machinery, vehicles, furniture and equipment	3,881,502	4,356,010	(474,508)
Infrastructure	92,004,206	80,552,191	11,452,015
Totals	<u>\$ 133,034,002</u>	<u>\$ 128,943,548</u>	<u>\$ 4,090,454</u>

Debt Administration

Annual payments of principal and interest are regularly made, with the final payments of these large debts due in February 2014.

On December 31, 2011, the County had \$6,056,869 in bonds and notes outstanding, a decrease of 21.54 percent, as shown in Table 5. All debt payments were made on a timely basis. There were no refinancings or new debt obligations in 2011. The Board intends to sell approximately \$6.0 million of bonds in August 2012. These are for reimbursements of a QECB project and 2011 highway projects as well as funding for some 2012 and 2013 highway projects. The need to finance up to \$5.0 million more in highway costs and either a new building or renovation of work space for office staff is under consideration in the next 2 to 5 years.

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



Other long-term liabilities on December 31, 2011, include: compensated absence liability (accrued vacation and sick leave payable) of \$4,118,397 and landfill closure and postclosure care liability of \$994,037. More detailed information about the County’s long-term liabilities is presented in Note 3.C. of the financial statements.

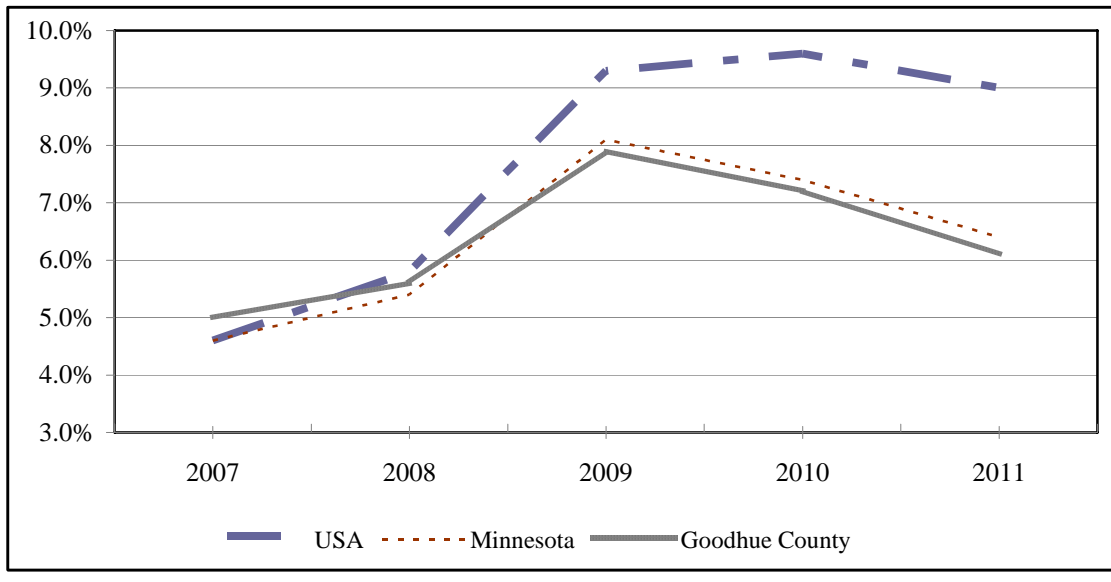
ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS

Unemployment

The 12-month averages for unemployment in 2011 for the U.S., Minnesota, and Goodhue County were 9.0 percent, 6.4 percent, and 6.4 percent, respectively. These compared to 2010 of 9.6 percent, 7.4 percent, and 7.2 percent. As outlined in Table 6, Goodhue County and the State of Minnesota continue to trend well below national unemployment averages. Current 2012 average unemployment rates for April 2012 were 7.7 percent, 5.2 percent, and 4.8 percent for the U.S., Minnesota, and Goodhue County, respectively. Like all local units of government, we are very concerned about both the national and local economic conditions and the impacts on our County. We believe the County will continue to trend below the national average. The County is not aware of any work force reductions in the area with businesses continuing to strive for economic stability followed by growth.

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

	2007	2008	2009	2010	2011
USA	4.6%	5.8%	9.3%	9.6%	9.0%
Minnesota	4.6%	5.4%	8.1%	7.4%	6.4%
Goodhue County	5.0%	5.6%	7.9%	7.2%	6.1%
Average	4.7%	5.6%	8.4%	8.1%	7.2%



Property Value Growth

Following years of growth, be it large or small, Pay 2011 showed a slight decrease in property values with minimal change for Pay 2012. Like the whole country, Goodhue County has seen decrease in property values and the occurrence of some foreclosures, but not significantly enough to impact County operations. Residential property values are stabilizing, sales and new construction appear to be taking a slight upswing, and tillable agricultural property increased at a rate from 11 to 16 percent per acre for Pay 2013.

In December 2006, Goodhue County and NSP/Xcel Energy signed a ten-year Revenue Stabilization agreement detailing a payment in lieu of tax, which NSP/Xcel agrees to pay to Goodhue County to replace tax revenue that the County lost beginning in payable 2008 due to valuation changes made by the Minnesota Department of Revenue. With the agreement in place, NSP/Xcel agrees to match at least what it paid to the County in 2007. The first four years of the agreement required NSP/Xcel to make payments ranging from \$176,642 to \$537,507. The 2011 legislative action to replace Market Value Aid with Market Value Credit (MVC) shifted property taxes to commercial property which, in turn, increased the liability NSP/Xcel had in Goodhue

County. For the first time, its tax was more than it paid in 2007; thus, a 2012 stabilization payment was not required. Both parties are reviewing the documents to determine if the legislative action on MVC will void the agreement. It is anticipated the 2013 budget will not include a stabilization payment from NSP/Xcel to the County.

State Financial Position

While the State of Minnesota was in a difficult financial position, it withheld payments to Goodhue County each of the previous three years of approximately \$500,000 per year in Market Value Credit Aid and almost \$1.5 million in total County Program Aid. As it worked to get its financial house in order, it implemented a new credit in Pay 2012 which eliminates the Market Value Aid it was to pay jurisdictions and replaced it with a Market Value Credit Exclusion. This exclusion reduces the amount of property value to be taxed. However, it was only applied to residential property which, in turn, increased the tax burden on other types of property (such as, commercial/industrial). In order to adapt to the anticipated revenue reductions and the struggle of taxpayers, the County Board reviewed 2011 activities closely and increased the levy by \$500,000 for 2012. It will continue to monitor activity for 2013.

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 ASSETS
DECEMBER 31, 2011**

	Primary Government Governmental Activities	Belle Creek Watershed Component Unit
<u>Assets</u>		
Cash and pooled investments	\$ 33,013,716	\$ 237,011
Petty cash and change funds	2,050	-
Cash with escrow agent	490,500	-
Taxes receivable		
Prior - net	735,512	-
Special assessments receivable		
Current	21,551	-
Noncurrent	66,725	-
Accounts receivable - net	186,058	-
Accrued interest receivable	116,973	280
Loans receivable	885,807	-
Due from other governments	3,246,410	374
Due from primary government	-	133
Inventories	465,684	-
Prepaid items	466,513	-
Restricted assets		
Cash and pooled investments	218,883	-
Deferred charges	46,694	-
Other assets	-	-
Investment in joint venture	1,778,587	-
Capital assets		
Non-depreciable	14,097,655	378,550
Depreciable - net of accumulated depreciation	118,936,347	-
	\$ 174,775,665	\$ 616,348
<u>Liabilities</u>		
Accounts payable	\$ 472,368	\$ -
Salaries payable	1,093,838	-
Contracts payable	263,195	-
Due to other governments	494,728	165
Accrued interest payable	84,553	-
Unearned revenue	542,142	-
Customer deposits	10,747	-
Long-term liabilities		
Due within one year	3,460,609	-
Due in more than one year	7,661,812	-
	\$ 14,083,992	\$ 165

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

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**GOODHUE COUNTY
RED WING, MINNESOTA**

***EXHIBIT 1
(Continued)***

**STATEMENT OF NET ASSETS
DECEMBER 31, 2011**

	Primary Government Governmental Activities	Belle Creek Watershed Component Unit
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 127,432,667	\$ 378,550
Restricted for		
General government	581,927	-
Public safety	621,194	-
Highways and streets	749,603	-
Conservation of natural resources	2,853	-
Economic development	57,320	-
Debt service	490,500	-
Landfill postclosure	218,884	-
Gravel pit postclosure	84,055	-
Unrestricted	30,452,670	237,633
Total Net Assets	\$ 160,691,673	\$ 616,183

**GOODHUE COUNTY
RED WING, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary government		
Governmental activities		
General government	\$ 9,508,528	\$ 1,828,363
Public safety	11,664,141	979,798
Highways and streets	7,989,220	51,270
Sanitation	1,086,288	405,876
Human services	9,585,301	1,207,438
Health	2,947,593	763,843
Culture and recreation	632,536	-
Conservation of natural resources	699,951	-
Economic development	60,189	397,790
Interest	306,301	-
Total Governmental Activities	\$ 44,480,048	\$ 5,634,378
Component unit		
Belle Creek Watershed	\$ 23,789	\$ -

General Revenues

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

Total general revenues

Change in net assets

Net Assets - Beginning

Net Assets - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Belle Creek Watershed Discretely Presented Component Unit
\$ 660,193	\$ -	\$ (7,019,972)	
1,520,453	26,029	(9,137,861)	
6,109,592	101,018	(1,727,340)	
125,123	-	(555,289)	
4,714,379	-	(3,663,484)	
1,556,404	-	(627,346)	
-	-	(632,536)	
210,663	-	(489,288)	
-	-	337,601	
-	-	(306,301)	
\$ 14,896,807	\$ 127,047	\$ (23,821,816)	
\$ -	\$ -		\$ (23,789)
		\$ 24,978,475	\$ 9,292
		70,806	-
		28,072	-
		230,242	-
		2,619,221	1,121
		378,255	4,133
		515,166	-
		25,016	-
		\$ 28,845,253	\$ 14,546
		\$ 5,023,437	\$ (9,243)
		155,668,236	625,426
		\$ 160,691,673	\$ 616,183

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**GOODHUE COUNTY
RED WING, MINNESOTA**

**BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 18,503,325	\$ 4,173,036
Petty cash and change funds	1,375	50
Cash with escrow agent	-	-
Taxes receivable		
Prior	428,048	109,914
Special assessments		
Current	9,609	-
Prior	7,076	-
Accounts receivable	39,036	120
Accrued interest receivable	116,973	-
Due from other funds	8,921	16,427
Due from other governments	700,418	1,901,728
Prepaid items	319,785	32,521
Inventories	-	465,684
Loans receivable	89,017	-
Restricted assets		
Cash and pooled investments	-	-
	\$ 20,223,583	\$ 6,699,480
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 311,083	\$ 74,735
Salaries payable	665,306	92,240
Contracts payable	396	262,799
Due to other funds	28,928	-
Due to other governments	227,335	22,159
Deferred revenue - unavailable	1,013,964	843,140
Deferred revenue - unearned	116,072	-
Customer deposits	10,747	-
	\$ 2,373,831	\$ 1,295,073
Fund Balances		
Nonspendable	\$ 319,785	\$ 498,205
Restricted	1,290,029	-
Committed	6,131,975	1,786,567
Assigned	2,427,444	3,119,635
Unassigned	7,680,519	-
	\$ 17,849,752	\$ 5,404,407
Total Liabilities and Fund Balances	\$ 20,223,583	\$ 6,699,480

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

EXHIBIT 3

<u>Health and Human Services</u>	<u>Economic Development Authority</u>	<u>Debt Service</u>	<u>Nonmajor Fund Waste Management</u>	<u>Total</u>
\$ 5,463,794	\$ 341,473	\$ 4,122,598	\$ 409,490	\$ 33,013,716
550	-	-	75	2,050
-	-	490,500	-	490,500
130,196	534	58,002	8,818	735,512
-	-	11,942	-	21,551
-	-	59,649	-	66,725
120,407	-	-	26,495	186,058
-	-	-	-	116,973
12,475	-	-	26	37,849
644,255	-	-	9	3,246,410
109,488	-	-	4,719	466,513
-	-	-	-	465,684
-	796,790	-	-	885,807
-	-	-	218,883	218,883
<u>\$ 6,481,165</u>	<u>\$ 1,138,797</u>	<u>\$ 4,742,691</u>	<u>\$ 668,515</u>	<u>\$ 39,954,231</u>
\$ 77,167	\$ 210	\$ 993	\$ 8,180	\$ 472,368
317,026	-	-	19,266	1,093,838
-	-	-	-	263,195
8,921	-	-	-	37,849
241,637	-	-	3,597	494,728
141,927	398,247	120,771	7,465	2,525,514
186,660	239,410	-	-	542,142
-	-	-	-	10,747
<u>\$ 973,338</u>	<u>\$ 637,867</u>	<u>\$ 121,764</u>	<u>\$ 38,508</u>	<u>\$ 5,440,381</u>
\$ 109,488	\$ 399,000	\$ -	\$ 4,719	\$ 1,331,197
-	57,320	490,500	218,884	2,056,733
446,679	44,610	4,130,427	125,675	12,665,933
4,951,660	-	-	280,729	10,779,468
-	-	-	-	7,680,519
<u>\$ 5,507,827</u>	<u>\$ 500,930</u>	<u>\$ 4,620,927</u>	<u>\$ 630,007</u>	<u>\$ 34,513,850</u>
<u>\$ 6,481,165</u>	<u>\$ 1,138,797</u>	<u>\$ 4,742,691</u>	<u>\$ 668,515</u>	<u>\$ 39,954,231</u>

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**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2011**

Fund balances - total governmental funds (Exhibit 3)		\$	34,513,850
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.			133,034,002
Investment in joint venture is not available to pay for current period expenditures and, therefore, is not reported in the governmental funds.			1,778,587
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			2,525,514
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	\$	(4,555,000)	
Revenue bonds		(1,345,798)	
Bond issuance premiums		(10,651)	
Deferred amounts on refunding		57,533	
Notes payable		(156,071)	
Deferred debt issuance charges		46,694	
Compensated absences		(4,118,397)	
Accrued interest payable		(84,553)	
Landfill postclosure care liability		(994,037)	
		<u> </u>	<u>(11,160,280)</u>
Net Assets of Governmental Activities (Exhibit 1)			<u> </u> <u>\$ 160,691,673</u>

**GOODHUE COUNTY
RED WING, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	General	Road and Bridge
Revenues		
Taxes	\$ 15,052,726	\$ 3,557,313
Special assessments	5,317	-
Licenses and permits	200,206	7,661
Intergovernmental	4,026,262	6,548,344
Charges for services	1,636,875	11,695
Fines and forfeits	16,499	-
Gifts and contributions	41,229	-
Investment earnings	373,967	-
Miscellaneous	1,634,854	38,646
	\$ 22,987,935	\$ 10,163,659
Expenditures		
Current		
General government	\$ 10,771,631	\$ -
Public safety	12,105,373	-
Highways and streets	-	10,070,300
Sanitation	34,265	-
Human services	-	-
Health	-	-
Culture and recreation	593,205	23,725
Conservation of natural resources	695,138	-
Economic development	4,375	-
Debt service		
Principal	2,594	-
Interest	299	-
Administrative (fiscal) charges	-	-
Intergovernmental		
Highways and streets	-	375,874
	\$ 24,206,880	\$ 10,469,899
Excess of Revenues Over (Under) Expenditures	\$ (1,218,945)	\$ (306,240)
Other Financing Sources (Uses)		
Transfers in	\$ 10,169	\$ 311,031
Transfers out	(568,169)	(8,544)
Proceeds from sale of capital assets	25,015	-
	\$ (532,985)	\$ 302,487
Change in Fund Balance	\$ (1,751,930)	\$ (3,753)
Fund Balance - January 1, as restated (Note 1.F.)	19,601,682	5,381,858
Increase (decrease) in inventories	-	26,302
	\$ 17,849,752	\$ 5,404,407
Fund Balance - December 31	\$ 17,849,752	\$ 5,404,407

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

EXHIBIT 5

<u>Health and Human Services</u>	<u>Economic Development Authority</u>	<u>Debt Service</u>	<u>Nonmajor Fund Waste Management</u>	<u>Total</u>
\$ 4,377,592	\$ 14,211	\$ 1,912,263	\$ 291,424	\$ 25,205,529
-	-	10,704	-	16,021
-	-	-	7,438	215,305
6,514,648	430,700	78,799	137,116	17,735,869
1,556,305	-	-	71,796	3,276,671
-	-	-	-	16,499
-	-	-	-	41,229
-	-	-	337	374,304
436,660	1,835	-	300,106	2,412,101
\$ 12,885,205	\$ 446,746	\$ 2,001,766	\$ 808,217	\$ 49,293,528
\$ -	\$ -	\$ -	\$ -	\$ 10,771,631
-	-	-	-	12,105,373
-	-	-	-	10,070,300
-	-	-	822,185	856,450
10,059,461	-	-	-	10,059,461
2,971,586	-	-	-	2,971,586
-	-	-	-	616,930
-	-	-	-	695,138
-	55,814	-	-	60,189
-	-	1,662,364	-	1,664,958
-	-	233,872	-	234,171
-	-	17,120	-	17,120
-	-	-	-	375,874
\$ 13,031,047	\$ 55,814	\$ 1,913,356	\$ 822,185	\$ 50,499,181
\$ (145,842)	\$ 390,932	\$ 88,410	\$ (13,968)	\$ (1,205,653)
\$ 216,786	\$ 10,000	\$ -	\$ 30,352	\$ 578,338
(1,625)	-	-	-	(578,338)
-	-	-	-	25,015
\$ 215,161	\$ 10,000	\$ -	\$ 30,352	\$ 25,015
\$ 69,319	\$ 400,932	\$ 88,410	\$ 16,384	\$ (1,180,638)
5,438,508	99,998	4,532,517	613,623	35,668,186
-	-	-	-	26,302
\$ 5,507,827	\$ 500,930	\$ 4,620,927	\$ 630,007	\$ 34,513,850

**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, 2011**

Net change in fund balances - total governmental funds (Exhibit 5) \$ (1,180,638)

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

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

Deferred revenue - December 31	\$ 2,525,514	
Deferred revenue - January 1	<u>(2,193,610)</u>	331,904

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Also, in the statement of activities, only the gain or loss on the disposal of assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net book value of the assets sold.

Expenditures for general capital assets and infrastructure	\$ 9,176,969	
Current year depreciation	<u>(5,086,515)</u>	4,090,454

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. 648,165

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

Principal repayments		
Expenditures for principal retirement	\$ 1,662,364	
Capital lease retirement	<u>2,594</u>	1,664,958

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Amortization of deferred issuance costs	\$ (34,042)	
Amortization of deferred charges on refunding	(41,727)	
Amortization of bond premiums	4,743	
Change in accrued interest payable	20,759	
Change in landfill postclosure care liability	(139,965)	
Change in compensated absences	(367,476)	
Change in inventories	<u>26,302</u>	<u>(531,406)</u>

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 5,023,437

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 ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2011**

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and pooled investments	\$ 1,555,321
Accounts receivable	30,781
Due from other governments	<u>34,234</u>
Total Assets	<u><u>\$ 1,620,336</u></u>
<u>Liabilities</u>	
Due to component unit	\$ 133
Due to other governments	<u>1,620,203</u>
Total Liabilities	<u><u>\$ 1,620,336</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, 2011

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, 2011. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Blended Component Unit

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

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Discretely Presented Component Units

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

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

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets 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 assets 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 assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. The County first utilizes restricted resources to finance qualifying activities.

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

The Road and Bridge Special Revenue Fund accounts for restricted revenue sources from the federal, state, and other oversight agencies, as well as committed property tax revenues for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The 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.

The Economic Development Authority (EDA) 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 various economic activities including the loans made to provide assistance with flood-related expenditures after the 2010 flood. Repayments from these loans will go in to a revolving loan program within this Fund.

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Goodhue County considers all revenues to be available if they are collected within 60 days after the end of the current period. Property taxes are recognized as revenues in the year for which they are levied provided they are also available. Shared revenues are generally recognized in the period the appropriation goes into effect and the revenues are available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and are available. Property and other taxes, shared revenues, licenses, and interest are all considered to be susceptible

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

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

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

D. Assets, Liabilities, and Net Assets 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, 2011, 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 2011 were \$373,967.

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 fair value of the County's position in the pool is the same as the value of the pool shares.

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

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

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

2. Receivables and Payables

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

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

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

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

3. Inventories and Prepaid Items

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

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

4. Restricted Assets

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the 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

6. Compensated Absences

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Deferred Revenue

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

	Unavailable	Unearned
Delinquent property taxes	\$ 620,896	\$ -
Special assessments receivable	88,276	-
Loans receivable	486,807	239,410
Receivables that do not provide current financial resources	1,329,535	-
Grant drawdowns prior to meeting all eligibility requirements	-	302,732
Total Deferred/Unearned Revenue for All Governmental Funds	\$ 2,525,514	\$ 542,142

8. Long-Term Obligations

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

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Classification of Net Assets

Net assets in government-wide statements are classified in the following categories:

Invested in capital assets, net of related debt - the amount of net assets representing capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted net assets - the amount of net assets 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 assets - the amount of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

10. Classification of Fund Balances

In 2011, Goodhue County implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and to clarify existing governmental fund type definitions.

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 - the nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or 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.

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

10. Classification of Fund Balances (Continued)

Restricted - fund balance is reported as restricted when constraints placed on the use of resources are 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 - the committed fund balance classification includes 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 in the assigned fund balance classification the County intends to use for specific purposes but 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 that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board or the County Administrator or the Finance Director who has been delegated that authority by Board resolution.

Unassigned - unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

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.

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

10. Classification of Fund Balances (Continued)

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.

11. Use of Estimates

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

E. Revenues

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Revenues (Continued)

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.

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.

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Revenues (Continued)

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, 2011.

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund	\$ 22,592,964	\$ 24,206,880	\$ (1,613,916)
Economic Development Authority Fund	25,950	55,814	(29,864)

In February 2011, the County was awarded approval from the Minnesota Management & Budget Office to issue Qualified Energy Conservation Bonds of up to \$1.7 million for Government Center energy efficiency upgrades/renovations. Due to the uncertainty of the timing of the project, the County passed a reimbursement resolution and financed the project with fund balance until bonds could be sold. The budget was not adjusted for these 2011 project costs, estimated at just under \$1.5 million. If not for this project, the General Fund would have come in under budget. Bonds are scheduled to be sold in August 2012.

Southern Goodhue County experienced major flooding in the fall of 2010. In 2011, the County applied for and received from the Minnesota Department of Employment and Economic Development just over \$1.0 million to financially assist local businesses in their economic recoveries. All expenses related to this flood loan program were paid out of the Economic Development Authority Fund; the budget was not adjusted for this project. During 2011, the County reimbursed businesses almost \$828,000 in expenses. If not for this project, the EDA Fund would have come in under budget.

**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	\$	33,013,716
Petty cash and change funds		2,050
Cash with escrow agent		490,500
Restricted cash		218,883
Fiduciary funds		
Agency funds		
Cash and pooled investments		1,555,321
Total Cash and Investments	\$	35,280,470
Deposits	\$	18,319,797
Petty cash and change funds		2,050
Investments		16,958,623
Total	\$	35,280,470

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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 County's deposits may not be returned to it. The County's policy on custodial credit risk mirrors state statute. As of December 31, 2011, 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 that are in the possession of an outside party. The County has no policy concerning custodial credit risk.

At December 31, 2011, all of the investments held in the escrow agent accounts listed below, totaling \$490,500, were subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. The County does not have a policy on the concentration of credit risk.

The following table presents the County's investment balances at December 31, 2011, and information relating to potential custodial and concentration credit risks:

<u>Investment - Issuer</u>	<u>Credit Risk</u>		<u>Concentration Risk (%)</u>	<u>Carrying (Fair) Value</u>
	<u>Credit Rating</u>	<u>Rating Agency</u>		
Mutual funds				
MAGIC - cash management funds	N/A	N/A	N/A	\$ 5,001
Wells Fargo Brokerage - money market mutual funds	Aaa	Moody's	N/A	<u>251,620</u>
Total mutual funds				<u>\$ 256,621</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		
Commercial paper				
Wells Fargo Brokerage				
Bank Tokyo-Mit	A1	S&P	<5%	\$ 499,889
University of California	A1	S&P	<5%	499,905
HSBC Finance Corp	A1	S&P	<5%	499,775
Salvation Army	A1	S&P	<5%	499,775
Sumitomo Corp of America	A1	S&P	<5%	499,617
American Honda Finance	A1	S&P	<5%	499,617
FCAR Owner Trust II	A1	S&P	<5%	499,490
General Electric Cap	A1+	S&P	<5%	498,501
Total commercial paper				\$ 3,996,569
Municipal bonds				
Wells Fargo Brokerage				
Cannon Falls ISD #252	AA+	S&P	<5%	\$ 281,238
St. Croix County, Wisconsin	Aa1	Moody's	<5%	400,368
Total municipal bonds				\$ 681,606
Agency securities				
Wells Fargo Brokerage				
FNMA	AAA	Fitch	<5%	\$ 508,414
FHLB	Aaa	Moody's	<5%	250,290
FFCB	AAA	Fitch	<5%	752,091
FHLMC	AAA	Fitch	<5%	501,690
Total agency securities				\$ 2,012,485
Bonds				
Small Business Administration				
Wells Fargo Brokerage			N/A	\$ 211,167
EE U.S. Savings Bonds	N/A	N/A	N/A	\$ 30,675
Escrow agent				
Mutual funds				
US Bank - U.S. Treasury money market funds	Aaa	Moody's	N/A	\$ 490,500
Negotiable certificates of deposit	N/A	N/A	N/A	\$ 9,279,000
Total Investments				\$ 16,958,623

<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				
Bank Tokyo-Mit	\$ 499,889	\$ 499,889	\$ -	\$ -
University of California	499,905	499,905	-	-
HSBC Finance Corp	499,775	499,775	-	-
Salvation Army	499,775	499,775	-	-
Sumitomo Corp of America	499,617	499,617	-	-
American Honda Finance	499,617	499,617	-	-
FCAR Owner Trust II	499,490	499,490	-	-
General Electric Cap	498,501	498,501	-	-
Total commercial paper	\$ 3,996,569	\$ 3,996,569	\$ -	\$ -
Municipal bonds				
Cannon Falls ISD #252	\$ 281,238	\$ 181,998	\$ 99,240	\$ -
St. Croix County, Wisconsin	400,368	-	-	400,368
Total municipal bonds	\$ 681,606	\$ 181,998	\$ 99,240	\$ 400,368
Agency securities				
FNMA	\$ 252,972	\$ 252,972	\$ -	\$ -
FHLB	250,290	-	250,290	-
FFCB	250,560	-	250,560	-
FNMA	255,442	-	255,442	-
FHLMC	250,631	-	-	250,631
FFCB	250,808	-	-	250,808
FFCB	250,723	-	-	250,723
FHLMC	251,059	-	-	251,059
Total agency securities	\$ 2,012,485	\$ 252,972	\$ 756,292	\$ 1,003,221
Bonds				
Small Business Administration	\$ 211,167	\$ -	\$ -	\$ 211,167
EE U.S. Savings Bonds	30,675	-	-	30,675
Total bonds	\$ 241,842	\$ -	\$ -	\$ 241,842
Negotiable certificates of deposit	\$ 9,279,000	\$ 8,287,000	\$ 588,000	\$ 404,000
Total Investments Subject to Interest Rate Risk	\$ 16,211,502	\$ 12,718,539	\$ 1,443,532	\$ 2,049,431
Investments not subject to interest rate risk	747,121			
Total Investments	\$ 16,958,623			

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2011, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 735,512	\$ -
Special assessments	88,276	66,725
Due from other governments	3,246,410	-
Accounts (net)	186,058	-
Interest	116,973	-
Loans receivable	885,807	864,420
Total Governmental Activities	\$ 5,259,036	\$ 931,145

Of the loans receivable, \$796,790 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 \$775,403 in MIF flood loans that are not scheduled for collection in the subsequent year.

3. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 7,932,500	\$ 21,635	\$ -	\$ 7,954,135
Construction in progress	12,137,675	2,731,474	8,725,629	6,143,520
Total capital assets not depreciated	\$ 20,070,175	\$ 2,753,109	\$ 8,725,629	\$ 14,097,655

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Land improvements	\$ 252,269	\$ -	\$ -	\$ 252,269
Buildings	37,358,412	-	-	37,358,412
Machinery, furniture, and equipment	11,411,792	713,938	377,842	11,747,888
Infrastructure	138,077,749	14,478,090	-	152,555,839
	<u>\$ 187,100,222</u>	<u>\$ 15,192,028</u>	<u>\$ 377,842</u>	<u>\$ 201,914,408</u>
Total capital assets depreciated				
Less: accumulated depreciation for				
Land improvements	\$ 62,358	\$ 9,657	\$ -	\$ 72,015
Buildings	13,583,151	904,876	-	14,488,027
Machinery, furniture, and equipment	7,055,782	1,145,907	335,303	7,866,386
Infrastructure	57,525,558	3,026,075	-	60,551,633
	<u>\$ 78,226,849</u>	<u>\$ 5,086,515</u>	<u>\$ 335,303</u>	<u>\$ 82,978,061</u>
Total accumulated depreciation				
Total capital assets depreciated, net	<u>\$ 108,873,373</u>	<u>\$ 10,105,513</u>	<u>\$ 42,539</u>	<u>\$ 118,936,347</u>
Capital Assets, Net	<u>\$ 128,943,548</u>	<u>\$ 12,858,622</u>	<u>\$ 8,768,168</u>	<u>\$ 133,034,002</u>

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

Governmental Activities	
General government	\$ 1,005,602
Public safety	380,286
Highways and streets, including depreciation of infrastructure assets	3,501,408
Human services	2,059
Health	63,413
Sanitation	118,141
Culture/recreation	15,606
	<u>5,086,515</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 5,086,515</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, 2011, is as follows:

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Health and Human Services	\$ 8,921
Road and Bridge	General	16,427
Health and Human Services	General	12,475
Waste Management	General	26
		<hr/>
Total Due To/From Other Funds		\$ 37,849
		<hr/> <hr/>

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, 2010, 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	1,625	Time on PH projects
Transfers to Road and Bridge Fund from General Fund	311,031	Capital expenditures
Transfers to Health and Human Services Fund from General Fund	21,538	Capital expenditures
	108,299	H.S.A. contributions
	26,850	Building project costs
	5,863	Software maintenance
	54,236	Term. payments
Transfers to Economic Development Authority Fund from General Fund	10,000	1916 tax incentives
Transfers to Waste Management Fund from General Fund	30,352	Capital expenditures
	<hr/>	
Total Interfund Transfers	\$ 578,338	
	<hr/> <hr/>	

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2011, were as follows:

	Governmental Activities
Accounts	\$ 472,368
Salaries	1,093,838
Contracts	263,195
Due to other governments	494,728
Total Payables	\$ 2,324,129

2. Capital Leases

The County has not entered into any capital lease agreements as of December 31, 2011.

3. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2011
General obligation bonds					
1997B G.O. Welch Village Revenue Bonds	2018	\$3,120 - \$8,095	1.58	\$ 143,750	\$ 50,798
1998, 2001, and 2003 G.O. Revenue Notes	2023	\$1,284 - \$7,804	0.00	175,670	156,071
2004A Courts Building Lease Revenue Refunding Bonds	2013	\$240,000 - \$660,000	2.00 - 3.80	4,905,000	1,295,000
2004A Landfill Closure Refunding Bonds	2013	\$140,000 - \$170,000	1.375 - 3.80	1,235,000	335,000
2005A Jail Refunding Bonds	2012	\$750,000 - \$880,000	2.10 - 3.10	5,670,000	880,000
2005B Jail Refunding Bonds	2014	\$20,000 - \$1,860,000	3.60 - 3.625	3,460,000	3,340,000
Total General Obligation Bonds				\$ 15,589,420	\$ 6,056,869

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Debt Service Requirements

Debt service requirements at December 31, 2011, were as follows:

Year Ending December 31	General Obligation Refunding Bonds		General Obligation Revenue Bonds	
	Principal	Interest	Principal	Interest
2012	\$ 1,075,000	\$ 141,913	\$ 642,481	\$ 37,601
2013	1,620,000	96,341	667,600	13,195
2014	1,860,000	33,713	7,720	534
2015	-	-	7,843	412
2016	-	-	7,967	287
2017 - 2018	-	-	12,187	193
Total	<u>\$ 4,555,000</u>	<u>\$ 271,967</u>	<u>\$ 1,345,798</u>	<u>\$ 52,222</u>

Year Ending December 31	General Obligation Revenue Notes	
	Principal	Interest
2012	\$ 13,401	\$ -
2013	15,000	-
2014	17,568	-
2015	17,568	-
2016	17,568	-
2017 - 2021	69,840	-
2022 - 2023	5,126	-
Total	<u>\$ 156,071</u>	<u>\$ -</u>

5. Deferred Amount on Refunding

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, 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	\$ 5,600,000	\$ -	\$ 1,045,000	\$ 4,555,000	\$ 1,075,000
G.O. revenue bonds	1,963,162	-	617,364	1,345,798	642,481
G.O. notes	156,071	-	-	156,071	13,401
Deferred amounts					
For issuance premiums	15,393	-	4,743	10,650	-
On refunding	(99,259)	-	(41,727)	(57,532)	-
Total bonds and notes payable	\$ 7,635,367	\$ -	\$ 1,625,380	\$ 6,009,987	\$ 1,730,882
Capital leases - 2008	2,594	-	2,594	-	-
Closure and postclosure care	854,072	139,965	-	994,037	-
Compensated absences	3,750,921	1,822,066	1,454,590	4,118,397	1,729,727
Governmental Activity					
Long-Term Liabilities	\$ 12,242,954	\$ 1,962,031	\$ 3,082,564	\$ 11,122,421	\$ 3,460,609

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 \$994,037 landfill closure and postclosure care liability at December 31, 2011, is based on what it would cost to perform all closure and postclosure care in 2011. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. Not included in the above liability are \$789,059 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, 2011, investments of \$218,883 are held for these purposes. These are reported as restricted assets on the balance sheet.

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

7. Landfill Closure and Postclosure Care Costs (Continued)

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

D. Fund Balance

Nonspendable, Restricted, Committed, and Assigned Fund Balances

Fund balances of the governmental funds were designated as follows at December 31, 2011.

<u>Nonspendable</u>	<u>General</u>	<u>Road and Bridge</u>	<u>Health and Human Services</u>	<u>Waste Management Fund</u>	<u>Economic Development Authority</u>	<u>Debt Services</u>
Prepaid items	\$ 319,785	\$ 32,521	\$ 109,488	\$ 4,719	\$ -	\$ -
Long-term loans/notes receivable	-	-	-	-	399,000	-
Inventories	-	465,684	-	-	-	-
Total Nonspendable Fund Balance	\$ 319,785	\$ 498,205	\$ 109,488	\$ 4,719	\$ 399,000	\$ -
<u>Restrictions</u>						
Unclaimed funds	\$ 239	\$ -	\$ -	\$ -	\$ -	\$ -
Gravel pit postclosure	84,055	-	-	-	-	-
Law Library	28,784	-	-	-	-	-
HAVA grant	3,923	-	-	-	-	-
Attorney's forfeiture activities	7,295	-	-	-	-	-
Attorney's victim assistance	3,081	-	-	-	-	-
Recorder's technology equipment	216,537	-	-	-	-	-
Recorder's compliance fund	197,020	-	-	-	-	-
Troop re-integration	50,791	-	-	-	-	-
Veterans transportation	6,831	-	-	-	-	-
Sheriff's forfeiture activities	631	-	-	-	-	-
Sheriff's counteract	4,035	-	-	-	-	-
Sheriff's K-9 donations	550	-	-	-	-	-
Gun permit activities	32,143	-	-	-	-	-
Sheriff's contingency	6,493	-	-	-	-	-
E-911	330,269	-	-	-	-	-
Correction service fee	18,156	-	-	-	-	-
Local correctional fees	57,376	-	-	-	-	-
NPP funds	171,541	-	-	-	-	-
County ditch #1	2,853	-	-	-	-	-
Individual sewage treatment systems	67,426	-	-	-	-	-
Landfill closure/postclosure	-	-	-	218,884	-	-
EDA loan program (1008 IHP)	-	-	-	-	57,320	-
Debt service	-	-	-	-	-	490,500
Total Restricted Fund Balance	\$ 1,290,029	\$ -	\$ -	\$ 218,884	\$ 57,320	\$ 490,500

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Detailed Notes on All Funds

D. Fund Balance

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

Commitments	General	Road and Bridge	Health and Human Services	Waste Management Fund	Economic Development Authority	Debt Services
Petty cash and change funds	\$ 1,375	\$ 50	\$ 550	\$ 75	\$ -	\$ -
Debt service	-	-	-	-	-	4,130,427
Economic development	-	-	-	-	44,610	-
Land use/environmental ordinance	646,205	-	-	-	-	-
Driver Awareness Program	32,147	-	-	-	-	-
Railroad Authority	2,055	-	-	-	-	-
Compensated absences	822,800	-	-	-	-	-
27th payroll (2015)	1,000,000	-	-	-	-	-
Tax court settlements	250,000	-	-	-	-	-
Natural, technological, human-caused hazards	1,000,000	-	-	-	-	-
Xcel stabilization fluctuations	300,000	-	-	-	-	-
Capital equipment/projects	1,490,650	-	-	125,600	-	-
Byllesby Dam	130,743	-	-	-	-	-
Byllesby Park and Trail	-	175,201	-	-	-	-
Southeast Collector	-	250,000	-	-	-	-
Health (home health care sale)	456,000	-	-	-	-	-
Health (SCHA distribution)	-	-	108,629	-	-	-
Out-of-home placement budget deficits	-	-	337,500	-	-	-
TH 52 development and construction	-	1,361,316	-	-	-	-
Total Committed Fund Balance	<u>\$ 6,131,975</u>	<u>\$ 1,786,567</u>	<u>\$ 446,679</u>	<u>\$ 125,675</u>	<u>\$ 44,610</u>	<u>\$ 4,130,427</u>
<u>Assigned</u>						
Buildings and grounds	\$ 29,408	\$ -	\$ -	\$ -	\$ -	\$ -
Employee training and development	64,110	-	-	-	-	-
Motor pool	7,045	-	-	-	-	-
County program aid contingency	1,326,881	-	-	-	-	-
Building contingencies	1,000,000	-	-	-	-	-
Township turnbacks	-	27,517	-	-	-	-
e-Document Compass/Onbase CM	-	-	305,000	-	-	-
Potential state/federal funding cuts	-	-	250,000	-	-	-
Technology improvements	-	-	150,000	-	-	-
Subsequent year's budgeted expenditures	-	3,092,118	4,246,660	280,729	-	-
Total Assigned Fund Balance	<u>\$ 2,427,444</u>	<u>\$ 3,119,635</u>	<u>\$ 4,951,660</u>	<u>\$ 280,729</u>	<u>\$ -</u>	<u>\$ -</u>

**GOODHUE COUNTY
RED WING, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

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

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan, and benefits vest after three years of credited service (five years for those first eligible for membership after June 30, 2010).

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

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans (Continued)

Funding Policy

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

The County is required to contribute the following percentages of annual covered payroll in 2011:

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, 2011, 2010, and 2009, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
General Employees Retirement Fund	\$ 987,571	\$ 931,862	\$ 909,962
Public Employees Police and Fire Fund	378,581	361,426	339,091
Public Employees Correctional Fund	207,228	206,070	198,208

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

4. Employee Retirement Systems and Pension Plans (Continued)

B. Defined Contribution Plan

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

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

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2011, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 4,291	\$ 4,291
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 \$450,000 per claim in 2011. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

B. Contingent Liabilities

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

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

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

C. Joint Ventures

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

Family Services Collaborative

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

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

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

South Country Health Alliance

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

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

South Country Health Alliance (Continued)

Each member county has an explicit and measurable right to its share of the total capital surplus of the SCHA. Gains and losses are allocated annually to all members based on the percentage of their utilization. The County's equity interest in the SCHA at December 31, 2011, was \$1,778,587. The equity interest is reported as an investment in joint venture on the government-wide statement of net assets. 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.

Southeastern Minnesota Multi-County HRA

Goodhue County and other regional counties have formed the Southeastern Minnesota Multi-County Housing and Redevelopment Authority (HRA) for the purposes of providing housing and redevelopment services to Southeastern Minnesota counties. The governing body consists of an eight-member Board of Commissioners. Two Commissioners were appointed by each of the County Boards. The HRA adopts its own budget. Complete financial statements for the HRA can be obtained at 134 East Second Street, Wabasha, Minnesota 55981.

D. Jointly-Governed Organizations

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

Minnesota Counties Computer Cooperative

The Minnesota Counties Computer Cooperative was established to provide computer programming to member counties. During the year, Goodhue County paid \$120,624 to the Cooperative.

**GOODHUE COUNTY
RED WING, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

Region One - Southeast Minnesota Homeland Security Emergency Management Organization

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

Southeast Minnesota Narcotics and Gang Task Force

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

Southeast Minnesota Regional Radio Board

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

Southeast Minnesota Water Resources Board

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

Southeastern Minnesota Libraries Cooperative (SELCO)

The Southeastern Minnesota Libraries Cooperative provides library services within the County. During the year, the County contributed \$419,666 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 2011 and prior years is:

	<u>Prior Years</u>	<u>During 2011</u>
Number of loans made	46	4
Loans outstanding - January 1	\$ -	\$ 96,709
Loans made	396,714	34,265
Payments made on loans	<u>(300,005)</u>	<u>(41,957)</u>
Loans outstanding - December 31	<u>\$ 96,709</u>	<u>\$ 89,017</u>

G. Subsequent Event

The County has authorized the issuance of \$6,380,000 debt for highway projects and replacement of the heating system in the Government Center. The expected sale of the debt will be August 16, 2012.

**GOODHUE COUNTY
RED WING, MINNESOTA**

6. Belle Creek Watershed Disclosures

A. Summary of Significant Accounting Policies

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

Reporting Entity

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

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

Basis of Presentation

The District does not prepare separate financial statements.

B. Detailed Notes on the General Fund

Deposits

At December 31, 2011, the District's deposits were \$237,011.

The District is authorized by Minn. Stat. §§ 118.02 and 118.04 to designate a depository for public funds and to invest in certificates of deposit. All District deposits are required by Minn. Stat. § 118.03 to be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

6. Belle Creek Watershed Disclosures

B. Detailed Notes on the General Fund (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a financial institution failure, the District's deposits may not be returned to it. As of December 31, 2011, the District's deposits were not exposed to custodial credit risk.

Capital Assets

The District's capital asset activity for the year ended December 31, 2011, was as follows:

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

REQUIRED SUPPLEMENTARY INFORMATION

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**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 15,234,420	\$ 15,234,420	\$ 15,052,726	\$ (181,694)
Special assessments	-	-	5,317	5,317
Licenses and permits	206,660	206,660	200,206	(6,454)
Intergovernmental	2,628,231	2,628,231	4,026,262	1,398,031
Charges for services	1,919,938	1,919,938	1,636,875	(283,063)
Fines and forfeits	11,100	11,100	16,499	5,399
Gifts and contributions	31,500	31,500	41,229	9,729
Investment earnings	305,000	305,000	373,967	68,967
Miscellaneous	1,482,593	1,482,593	1,634,854	152,261
Total Revenues	\$ 21,819,442	\$ 21,819,442	\$ 22,987,935	\$ 1,168,493
Expenditures				
Current				
General government				
Commissioners	\$ 258,207	\$ 258,207	\$ 242,277	\$ 15,930
Courts	145,500	145,500	135,941	9,559
County administration	356,741	356,741	346,538	10,203
County auditor-treasurer	543,401	545,476	540,689	4,787
County assessor	809,011	809,011	801,793	7,218
Elections	2,000	2,000	4,538	(2,538)
Data processing	891,289	921,424	818,588	102,836
Personnel	301,335	301,335	296,584	4,751
Attorney	1,552,626	1,552,626	1,534,061	18,565
Law library	98,900	98,900	82,952	15,948
Recorder	446,232	446,232	631,829	(185,597)
Surveyor	225,489	225,489	231,111	(5,622)
GIS	199,577	206,777	186,169	20,608
Building permits	308,837	308,837	285,524	23,313
Planning and zoning	324,316	324,316	303,226	21,090
Environmental health	187,023	225,943	189,921	36,022
Buildings and plant	1,110,930	1,325,930	2,651,016	(1,325,086)
Veterans service officer	224,566	224,566	245,462	(20,896)
Other general government	1,160,274	1,160,274	1,243,412	(83,138)
Total general government	\$ 9,146,254	\$ 9,439,584	\$ 10,771,631	\$ (1,332,047)

**GOODHUE COUNTY
RED WING, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 4,071,302	\$ 4,979,891	\$ 5,455,760	\$ (475,869)
Sheriff - seasonal	188,255	188,255	226,993	(38,738)
Emergency management	185,565	185,565	209,782	(24,217)
Coroner	92,450	92,450	92,450	-
E-911 system	911,374	911,374	981,812	(70,438)
Adult detention center	4,390,577	4,394,927	4,207,498	187,429
Court services	1,026,754	1,026,754	931,014	95,740
Family court services	-	-	64	(64)
Total public safety	\$ 10,866,277	\$ 11,779,216	\$ 12,105,373	\$ (326,157)
Sanitation				
Individual septic treatment systems	\$ -	\$ -	\$ 34,265	\$ (34,265)
Culture and recreation				
Historical society	\$ 92,000	\$ 92,000	\$ 92,000	\$ -
Regional library	419,666	419,666	419,666	-
Byllesby Dam	120,000	120,000	17,190	102,810
Other culture and recreation	35,744	35,744	64,349	(28,605)
Total culture and recreation	\$ 667,410	\$ 667,410	\$ 593,205	\$ 74,205
Conservation of natural resources				
County extension	\$ 145,754	\$ 145,754	\$ 149,734	\$ (3,980)
Soil and water conservation	530,000	530,000	520,404	9,596
Fairs	25,000	25,000	25,000	-
Total conservation of natural resources	\$ 700,754	\$ 700,754	\$ 695,138	\$ 5,616
Economic development				
Regional Railroad Authority	\$ 6,000	\$ 6,000	\$ 4,375	\$ 1,625

**GOODHUE COUNTY
RED WING, MINNESOTA**

*EXHIBIT A-1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (Continued)				
Debt service				
Principal	\$ -	\$ -	\$ 2,594	\$ (2,594)
Interest	-	-	299	(299)
Total debt service	\$ -	\$ -	\$ 2,893	\$ (2,893)
Total Expenditures	\$ 21,386,695	\$ 22,592,964	\$ 24,206,880	\$ (1,613,916)
Excess of Revenues Over (Under)				
Expenditures	\$ 432,747	\$ (773,522)	\$ (1,218,945)	\$ (445,423)
Other Financing Sources (Uses)				
Transfers in	\$ 8,544	\$ 8,544	\$ 10,169	\$ 1,625
Transfers out	(617,567)	(660,567)	(568,169)	92,398
Proceeds from sale of capital assets	-	-	25,015	25,015
Total Other Financing Sources (Uses)	\$ (609,023)	\$ (652,023)	\$ (532,985)	\$ 119,038
Net Change in Fund Balance	\$ (176,276)	\$ (1,425,545)	\$ (1,751,930)	\$ (326,385)
Fund Balance - January 1	19,601,682	19,601,682	19,601,682	-
Fund Balance - December 31	\$ 19,425,406	\$ 18,176,137	\$ 17,849,752	\$ (326,385)

**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 3,593,388	\$ 3,593,388	\$ 3,557,313	\$ (36,075)
Licenses and permits	7,200	7,200	7,661	461
Intergovernmental	5,269,507	5,269,507	6,548,344	1,278,837
Charges for services	6,900	6,900	11,695	4,795
Miscellaneous	14,800	14,800	38,646	23,846
Total Revenues	\$ 8,891,795	\$ 8,891,795	\$ 10,163,659	\$ 1,271,864
Expenditures				
Current				
Highways and streets				
Administration	\$ 400,325	\$ 671,109	\$ 514,638	\$ 156,471
Maintenance	2,562,805	2,766,805	2,614,446	152,359
Construction	8,593,698	8,843,698	6,037,091	2,806,607
Equipment maintenance and shop	1,004,967	1,016,067	904,125	111,942
Total highways and streets	\$ 12,561,795	\$ 13,297,679	\$ 10,070,300	\$ 3,227,379
Culture and recreation				
Parks	15,000	15,000	23,725	(8,725)
Intergovernmental				
Highways and streets	347,000	347,000	375,874	(28,874)
Total Expenditures	\$ 12,923,795	\$ 13,659,679	\$ 10,469,899	\$ 3,189,780
Excess of Revenues Over (Under) Expenditures	\$ (4,032,000)	\$ (4,767,884)	\$ (306,240)	\$ 4,461,644
Other Financing Sources (Uses)				
Transfers in	\$ 432,000	\$ 432,000	\$ 311,031	\$ (120,969)
Transfers out	(8,544)	(8,544)	(8,544)	-
Proceeds from sale of bonds	3,600,000	3,600,000	-	(3,600,000)
Total Other Financing Sources (Uses)	\$ 4,023,456	\$ 4,023,456	\$ 302,487	\$ (3,720,969)
Net Change in Fund Balance	\$ (8,544)	\$ (744,428)	\$ (3,753)	\$ 740,675
Fund Balance - January 1	5,381,858	5,381,858	5,381,858	-
Increase (decrease) in inventories	-	-	26,302	26,302
Fund Balance - December 31	\$ 5,373,314	\$ 4,637,430	\$ 5,404,407	\$ 766,977

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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 4,453,841	\$ 4,453,841	\$ 4,377,592	\$ (76,249)
Intergovernmental	6,140,880	6,210,136	6,514,648	304,512
Charges for services	2,070,850	1,979,990	1,556,305	(423,685)
Miscellaneous	432,757	432,757	436,660	3,903
Total Revenues	\$ 13,098,328	\$ 13,076,724	\$ 12,885,205	\$ (191,519)
Expenditures				
Current				
Human services				
Income maintenance	\$ 3,224,197	\$ 3,224,197	\$ 3,096,803	\$ 127,394
Social services	7,139,754	7,062,394	6,962,658	99,736
Total human services	\$ 10,363,951	\$ 10,286,591	\$ 10,059,461	\$ 227,130
Health				
Quality assurance - health services	\$ 1,103,797	\$ 1,103,797	\$ 1,062,636	\$ 41,161
Healthy communities/behaviors	972,261	982,081	1,006,853	(24,772)
Disaster preparedness	33,075	48,135	40,115	8,020
Infectious disease	132,865	140,689	127,600	13,089
Health services - administration	701,702	702,702	734,382	(31,680)
Total health	\$ 2,943,700	\$ 2,977,404	\$ 2,971,586	\$ 5,818
Total Expenditures	\$ 13,307,651	\$ 13,263,995	\$ 13,031,047	\$ 232,948
Excess of Revenues Over (Under)				
Expenditures	\$ (209,323)	\$ (187,271)	\$ (145,842)	\$ 41,429
Other Financing Sources (Uses)				
Transfers in	154,567	154,567	216,786	62,219
Transfers out	-	-	(1,625)	(1,625)
Total Other Financing Sources (Uses)	\$ 154,567	\$ 154,567	\$ 215,161	\$ 60,594
Net Change in Fund Balance	\$ (54,756)	\$ (32,704)	\$ 69,319	\$ 102,023
Fund Balance - January 1, restated	5,438,508	5,438,508	5,438,508	-
Fund Balance - December 31	\$ 5,383,752	\$ 5,405,804	\$ 5,507,827	\$ 102,023

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
ECONOMIC DEVELOPMENT AUTHORITY SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 14,421	\$ 14,421	\$ 14,211	\$ (210)
Intergovernmental	529	529	430,700	430,171
Miscellaneous	1,000	1,000	1,835	835
Total Revenues	\$ 15,950	\$ 15,950	\$ 446,746	\$ 430,796
Expenditures				
Current				
Economic development				
Community development	25,950	25,950	55,814	(29,864)
Excess of Revenues Over (Under) Expenditures	\$ (10,000)	\$ (10,000)	\$ 390,932	\$ 400,932
Other Financing Sources (Uses)				
Transfers in	10,000	10,000	10,000	-
Net Change in Fund Balance	\$ -	\$ -	\$ 400,932	\$ 400,932
Fund Balance - January 1	99,998	99,998	99,998	-
Fund Balance - December 31	\$ 99,998	\$ 99,998	\$ 500,930	\$ 400,932

**GOODHUE COUNTY
RED WING, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2011**

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, 2011.

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund	\$ 22,592,964	\$ 24,206,880	\$ (1,613,916)
Economic Development Authority Fund	25,950	55,814	(29,864)

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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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,941,783	\$ 1,941,783	\$ 1,912,263	\$ (29,520)
Special assessments	10,154	10,154	10,704	550
Intergovernmental	71,217	71,217	78,799	7,582
Total Revenues	\$ 2,023,154	\$ 2,023,154	\$ 2,001,766	\$ (21,388)
Expenditures				
Debt service				
Principal	\$ 1,662,364	\$ 1,662,364	\$ 1,662,364	\$ -
Interest	233,981	233,981	233,872	109
Administrative - fiscal charges	126,809	126,809	17,120	109,689
Total Expenditures	\$ 2,023,154	\$ 2,023,154	\$ 1,913,356	\$ 109,798
Net Change in Fund Balance	\$ -	\$ -	\$ 88,410	\$ 88,410
Fund Balance - January 1	4,532,517	4,532,517	4,532,517	-
Fund Balance - December 31	\$ 4,532,517	\$ 4,532,517	\$ 4,620,927	\$ 88,410

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**GOODHUE COUNTY
RED WING, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

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**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT C-1

**BUDGETARY COMPARISON SCHEDULE
WASTE MANAGEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 296,361	\$ 296,361	\$ 291,424	\$ (4,937)
Licenses and permits	6,000	6,000	7,438	1,438
Intergovernmental	129,469	129,469	137,116	7,647
Charges for services	61,600	61,600	71,796	10,196
Interest on investments	1,000	1,000	337	(663)
Miscellaneous	182,790	182,790	300,106	117,316
Total Revenues	\$ 677,220	\$ 677,220	\$ 808,217	\$ 130,997
Expenditures				
Current				
Sanitation				
Solid waste	\$ 80,882	\$ 80,882	\$ 80,256	\$ 626
Recycling	419,341	429,941	468,051	(38,110)
Hazardous waste	115,327	115,327	112,613	2,714
Landfill	162,670	197,670	161,265	36,405
Total Expenditures	\$ 778,220	\$ 823,820	\$ 822,185	\$ 1,635
Excess of Revenues Over (Under) Expenditures	\$ (101,000)	\$ (146,600)	\$ (13,968)	\$ 132,632
Other Financing Sources (Uses)				
Transfers in	21,000	56,000	30,352	(25,648)
Net Change in Fund Balance	\$ (80,000)	\$ (90,600)	\$ 16,384	\$ 106,984
Fund Balance - January 1	613,623	613,623	613,623	-
Fund Balance - December 31	\$ 533,623	\$ 523,023	\$ 630,007	\$ 106,984

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**GOODHUE COUNTY
RED WING, MINNESOTA**

AGENCY FUNDS

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

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

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

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**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT D-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Balance January 1	Additions	Deductions	Balance December 31
<u>FAMILY COLLABORATIVE FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 399,647	\$ 371,024	\$ 346,296	\$ 424,375
Due from other governments	59,328	142,379	167,473	34,234
Total Assets	\$ 458,975	\$ 513,403	\$ 513,769	\$ 458,609
<u>Liabilities</u>				
Due to other governments	\$ 458,975	\$ 513,403	\$ 513,769	\$ 458,609
 <u>TAXES AND PENALTIES FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 874,071	\$ 50,867,628	\$ 50,738,847	\$ 1,002,852
<u>Liabilities</u>				
Due to component unit	\$ 208	\$ 9,292	\$ 9,367	\$ 133
Due to other governments	873,863	50,858,336	50,729,480	1,002,719
Total Liabilities	\$ 874,071	\$ 50,867,628	\$ 50,738,847	\$ 1,002,852

**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, 2011**

	Balance January 1	Additions	Deductions	Balance December 31
<u>OTHER AGENCY FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 190,190	\$ 1,122,419	\$ 1,184,515	\$ 128,094
Accounts receivable	21,570	144,754	135,543	30,781
	\$ 211,760	\$ 1,267,173	\$ 1,320,058	\$ 158,875
<u>Liabilities</u>				
Due to other governments	\$ 211,760	\$ 1,267,173	\$ 1,320,058	\$ 158,875
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,463,908	\$ 52,361,071	\$ 52,269,658	\$ 1,555,321
Accounts receivable	21,570	144,754	135,543	30,781
Due from other governments	59,328	142,379	167,473	34,234
	\$ 1,544,806	\$ 52,648,204	\$ 52,572,674	\$ 1,620,336
<u>Liabilities</u>				
Due to component unit	\$ 208	\$ 9,292	\$ 9,367	\$ 133
Due to other governments	1,544,598	52,638,912	52,563,307	1,620,203
	\$ 1,544,806	\$ 52,648,204	\$ 52,572,674	\$ 1,620,336

BELLE CREEK WATERSHED COMPONENT UNIT

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**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT E-1

**STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
BELLE CREEK WATERSHED COMPONENT UNIT
FOR THE YEAR ENDED DECEMBER 31, 2011**

	General Fund	Reconciliation	Statement of Net Assets
<u>Assets</u>			
Cash and pooled investments	\$ 237,011	\$ -	\$ 237,011
Accrued interest receivable	280	-	280
Due from other governments	374	-	374
Due from primary government	133	-	133
Capital assets			
Not depreciable - land	-	378,550	378,550
Total Assets	\$ 237,798	\$ 378,550	\$ 616,348
<u>Liabilities</u>			
Due to other governments	\$ 165	\$ -	\$ 165
<u>Fund Balance/Net Assets</u>			
Fund Balance			
Unassigned	237,633	(237,633)	
Total Liabilities and Fund Balance	\$ 237,798		
Net Assets			
Invested in capital assets		\$ 378,550	\$ 378,550
Unrestricted		237,633	237,633
Total Net Assets		\$ 616,183	\$ 616,183
Reconciliation of the General Fund Balance to Net Assets			
Fund Balance - Governmental Fund			\$ 237,633
Capital assets are reported in the Statement of Net Assets but not on the fund balance sheet.			378,550
Net Assets - Governmental Activities			\$ 616,183

**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, 2011**

	General Fund	Reconciliation	Statement of Activities
Revenues			
Taxes	\$ 9,292	\$ -	\$ 9,292
Intergovernmental	1,121	-	1,121
Investment earnings	4,133	-	4,133
Total Revenues	\$ 14,546	\$ -	\$ 14,546
Expenditures/Expenses			
Current			
General government	23,789	-	23,789
Excess of Revenues Over (Under)			
Expenditures/Expenses	\$ (9,243)	\$ -	\$ (9,243)
Fund Balance/Net Assets - January 1	246,876	378,550	625,426
Fund Balance/Net Assets - December 31	\$ 237,633	\$ 378,550	\$ 616,183

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, 2011**

Shared Revenue

State

Highway users tax	\$	6,288,859
PERA rate reimbursement		61,078
Disparity reduction aid		29,143
Police aid		252,781
County program aid		1,326,881
Market value credit		942,866
Disaster local option		1,163
Indian casino aid		269,341
Enhanced 911		129,602
		129,602

Total shared revenue **\$ 9,301,714**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	83,109
		83,109

Payments

Local

Local contributions	\$	163,871
Payments in lieu of taxes		230,242
		230,242

Total payments **\$ 394,113**

Grants

State

Minnesota Department/Board of		
Corrections	\$	311,911
Health		461,921
Human Services		1,426,629
Natural Resources		118,781
Public Safety		149,183
Water and Soil Resources		108,284
Employment and Economic Development		430,087
Peace Officer Standards and Training		16,664
Pollution Control Agency		11,658
Office of Environmental Assistance		113,465
		113,465

Total state **\$ 3,148,583**

**GOODHUE COUNTY
RED WING, MINNESOTA**

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

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Grants (Continued)

Federal

Department of	
Agriculture	\$ 399,816
Commerce	49,785
Interior	11,940
Justice	91,301
Transportation	147,368
Health and Human Services	3,942,047
Homeland Security	166,093

Total federal **\$ 4,808,350**

Total state and federal grants **\$ 7,956,933**

Total Intergovernmental Revenue **\$ 17,735,869**

**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT F-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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	\$ 180,357
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	<u>231,030</u>
Total U.S. Department of Agriculture		<u>\$ 411,387</u>
U.S. Department of Commerce		
Passed Through Minnesota Department of Public Safety Public Safety Interoperable Communications Grant Program	11.555	\$ 10,273
Passed Through Southeastern Minnesota Regional Radio Board Public Safety Interoperable Communications Grant Program	11.555	<u>39,512</u>
Total U.S. Department of Commerce		<u>\$ 49,785</u>
U.S. Department of the Interior		
Direct Payments in Lieu of Taxes	15.226	<u>\$ 11,940</u>
U.S. Department of Justice		
Direct State Criminal Alien Assistance Program	16.606	\$ 7,319
Bulletproof Vest Partnership Program	16.607	1,285
Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program - ARRA	16.810	<u>61,244</u>
Total U.S. Department of Justice		<u>\$ 69,848</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 101,018
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	36,705
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	<u>9,645</u>
Total U.S. Department of Transportation		<u>\$ 147,368</u>

**GOODHUE COUNTY
RED WING, MINNESOTA**

**EXHIBIT F-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Passed Through National Association of County and City Health Officials Medical Reserve Corps Small Grant Program	93.008	\$ 5,000
Passed Through Southeastern Minnesota Area Agency on Aging Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	7,487
Passed Through Minnesota Department of Health Public Health Emergency Preparedness	93.069	33,148
Universal Newborn Hearing Screening Immunization Cluster	93.251	875
Immunization Grants	93.268	3,450
Immunization - ARRA	93.712	2,499
Temporary Assistance for Needy Families (TANF) Cluster Temporary Assistance for Needy Families	93.558	47,462
Maternal and Child Health Services Block Grant to the States	93.994	41,134
Passed Through Minnesota Department of Human Services TANF Cluster		
Temporary Assistance for Needy Families	93.558	334,059
Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program - ARRA	93.714	19,274
Child Support Enforcement	93.563	944,325
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	26,561
Stephanie Tubbs Jones Child Welfare Services Program	93.645	12,463
Foster Care - Title IV-E Cluster		
Foster Care - Title IV-E	93.658	338,345
Foster Care - Title IV-E - ARRA	93.658	1,522
Social Services Block Grant	93.667	225,721
Chafee Foster Care Independence Program	93.674	8,750
Children's Health Insurance Program	93.767	270
Medical Assistance Program	93.778	1,868,912
Block Grants for Community Mental Health Services	93.958	4,578
Total U.S. Department of Health and Human Services		\$ 3,925,835

**GOODHUE COUNTY
RED WING, MINNESOTA**

***EXHIBIT F-2
(Continued)***

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	\$ 32,669
Passed Through Minnesota Department of Public Safety Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	13,356
Hazard Mitigation Grant	97.039	412
Passed Through Region One - Southeast Minnesota of Homeland Security and Emergency Management Organization Homeland Security Grant Program	97.067	5,584
Passed Through Southeastern Minnesota Regional Radio Board Interoperable Emergency Communications	97.055	3,175
Homeland Security Grant Program	97.067	34,007
Total U.S. Department of Homeland Security		\$ 89,203
Total Federal Awards		\$ 4,705,366

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**GOODHUE COUNTY
RED WING, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

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, 2011. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Goodhue County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Goodhue County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowed or are limited as reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

4. Clusters

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

Immunization Cluster	\$	5,949
Temporary Assistance for Needy Families Cluster		400,795
Foster Care - Title IV-E		339,867

**GOODHUE COUNTY
RED WING, MINNESOTA**

5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue (Exhibit F-1)	\$	4,808,350
Grants deferred in 2010 and recognized in 2011		
Bulletproof Vest Partnership Program (CFDA #16.607)		(483)
Assistance to Rural Law Enforcement - ARRA (CFDA #16.810)		(20,970)
Temporary Assistance for Needy Families (TANF) (CFDA #93.558)		(294)
Child Care Mandatory and Matching Funds (CFDA #93.596)		(2,631)
Foster Care Title IV-E (CFDA #93.658)		(11,363)
Medical Assistance (CFDA #93.778)		(2,195)
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA #97.036)		(9,370)
Homeland Security Program (CFDA #97.067)		(97,006)
Grants deferred in 2011		
Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA#10.557)		11,571
Medical Assistance (CFDA #93.778)		271
Homeland Security Program (CFDA #97.067)		29,486
		29,486
Expenditures per Schedule of Expenditures of Federal Awards (Exhibit F-2)	\$	4,705,366

6. Subrecipients

During 2011, Goodhue County did not pass any federal money to subrecipients.

7. American Recovery and Reinvestment Act

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

**Other Information
Section**

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**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT G-1

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

	2010		2011		2012	
	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)
Tax Capacity						
Real property	\$ 60,999,634		\$ 59,979,281		\$ 56,606,119	
Personal property	695,395		774,471		808,867	
Tax increment	(1,145,795)		(1,023,781)		(942,736)	
Net Tax Capacity	\$ 60,549,234		\$ 59,729,971		\$ 56,472,250	
Taxes Levied for County Purposes						
General	\$ 14,939,153	25.606	\$ 15,545,392	27.036	\$ 16,208,518	29.755
Road and Bridge	4,115,468	6.822	3,688,895	6.198	3,663,854	6.512
Health and Human Services	4,596,610	7.619	4,617,191	7.757	4,458,089	7.923
Economic Development Authority	12,957	0.021	14,950	0.025	12,683	0.023
Debt Service	2,009,740	3.32	2,013,000	3.371	2,036,830	3.607
Waste Management	312,730	0.518	307,230	0.516	306,884	0.545
Total Taxes Levied for County Purposes	\$ 25,986,658	43.906	\$ 26,186,658	44.903	\$ 26,686,858	48.365
Tax Capacity - Light and Power						
Transmission	\$ 42,306		\$ 45,188		\$ 46,010	
Distribution	5,860		6,252		6,364	
Total Tax Capacity - Light and Power	\$ 48,166		\$ 51,440		\$ 52,374	
Light and Power Tax Levies (distributed in accordance with Minn. Stat. § 273.40, as amended)						
Transmission	\$ 43,385		\$ 47,278		\$ 51,921	
Distribution	6,009		6,541		7,182	
Total Light and Power Tax Levies	\$ 49,394	102.55	\$ 53,819	104.625	\$ 59,103	112.847

(Unaudited)

**GOODHUE COUNTY
RED WING, MINNESOTA**

*EXHIBIT G-1
(Continued)*

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

	2010		2011		2012	
	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)
Market Value - Light and Power						
Transmission	\$ 2,152,800		\$ 2,296,900		\$ 2,338,000	
Distribution	293,000		312,600		318,000	
Total Market Value - Light and Power	<u>\$ 2,445,800</u>		<u>\$ 2,609,500</u>		<u>\$ 2,656,000</u>	
Light and Power Tax Market Value Levies						
Transmission	\$ 3,788		\$ 3,978		\$ 4,610	
Distribution	516		541		627	
Total Light and Power Tax Market Value Levies	<u>\$ 4,304</u>	0.175	<u>\$ 4,519</u>	0.173	<u>\$ 5,237</u>	0.197
Market Value - State General Tax						
Transmission	\$ 42,306		\$ 45,188		\$ 46,010	
Distribution	5,860		6,252		6,364	
Total Market Value - State General Tax	<u>\$ 48,166</u>		<u>\$ 51,440</u>		<u>\$ 52,374</u>	
State General Tax Market Value Levies						
Transmission	\$ 19,410		\$ 22,162		\$ 23,511	
Distribution	2,689		3,066		3,252	
Total State General Tax Market Value Levies	<u>\$ 22,099</u>	45.881	<u>\$ 25,228</u>	49.043	<u>\$ 26,763</u>	51.100
Special Assessments						
Belle Creek Watershed Improvement Bonds	<u>\$ 10,000</u>	0.421	<u>\$ 10,000</u>	0.432	<u>\$ 20,000</u>	0.861
Percentage of Tax Collections for All Purposes						
	98.55%		98.58%			

(Unaudited)

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**GOODHUE COUNTY
RED WING, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

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? **Yes**

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **Yes**

The major programs are:

Temporary Assistance for Needy Families Cluster	
Temporary Assistance for Needy Families	CFDA #93.558
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program	CFDA #93.714
Child Support Enforcement	CFDA #93.563
Foster Care - Title IV-E Cluster	
Foster Care - Title IV-E	CFDA #93.658
ARRA - Foster Care - Title IV-E	CFDA #93.658

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

08-3 Segregation of Duties - County Departments

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

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

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

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

Cause: The County does not have the economic resources needed to hire additional qualified accounting staff in order to segregate duties in every department.

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

Client's Response:

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

PREVIOUSLY REPORTED ITEM RESOLVED

Payroll Segregation of Duties (08-1)

During our review of internal controls over payroll, we noted County personnel who enter information from employees' time sheets into the payroll system also have access to the payroll master file, allowing them to make changes to employee payroll records and add employees to the payroll system.

Resolution

Review of payroll internal controls disclosed that the County has compensating controls over this process.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEM ARISING THIS YEAR

11-1 Reporting - Review Process

Program: Temporary Assistance for Needy Families (TANF) (CFDA No. 93.558)

Criteria: Standard internal control procedures should include a review and approval process for reports to ensure the reports submitted to the State of Minnesota are accurate and meet reporting requirements.

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

Questioned Costs: None.

Context: The County reports expenditures incurred for administering the Local Public Health Grant - TANF to the Minnesota Department of Health on a quarterly basis.

Effect: The lack of periodic review of reports by a supervisory-level individual increases the risk that reports submitted will not be correct.

Cause: The County does not have adequate procedures in place to ensure that reports submitted are reviewed.

Recommendation: We recommend the County document supervisory review of the quarterly Local Public Health Grant - TANF reports submitted to the Minnesota Department of Health to ensure the reports are accurate and meeting reporting requirements.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Mike Zorn

Corrective Action Planned:

A supervisory level individual will now review the quarterly Local Public Health Grant - TANF reports submitted to the Minnesota Department of Health to ensure the reports are accurate and meeting reporting requirements.

Anticipated Completion Date:

Additional review and approval will begin immediately with the 2nd Quarter 2012 Report.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

08-7 Safe Driving Class

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

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

Fund. A local unit of government receiving administrative fine proceeds must use one-half of the funds for law enforcement purposes. Each local unit of government must follow these and other criteria specified in the new statute.

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

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

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

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

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

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

Client’s Response:

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

PREVIOUSLY REPORTED ITEM RESOLVED

Insufficient Collateral (09-1)

The County had deposits at White Rock Bank that were not adequately covered by collateral per Minn. Stat. § 118A.03. The amount of collateral required to secure deposits at the White Rock Bank at December 31, 2010, was \$330,917 more than the amount of collateral pledged.

Resolution

Review of deposits at year-end disclosed the County had sufficient collateral.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

Board of County Commissioners
Goodhue County

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Goodhue County as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated July 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Goodhue County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Goodhue County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified a deficiency in internal controls over financial reporting, described in the Schedule of Findings and Questioned Costs as item 08-3, that we consider to be a significant deficiency in internal control over financial reporting. 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 attention by those charged with governance.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in tax increment financing because Goodhue County did not have any.

The results of our tests indicate that for the items tested, Goodhue County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 08-7.

Goodhue County's written responses to the internal control and legal compliance findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 31, 2012

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REBECCA OTTO
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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners
Goodhue County

Compliance

We have audited Goodhue County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. Goodhue County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Goodhue County complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as item 11-1. 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 attention by those charged with governance.

Goodhue County's corrective action plan to the federal award finding identified in our audit is included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's corrective action plan and, accordingly, we express no opinion on it.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 31, 2012