

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

GOODHUE COUNTY
RED WING, MINNESOTA

YEAR ENDED DECEMBER 31, 2014

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.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@osa.state.mn.us
www.auditor.state.mn.us

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: www.auditor.state.mn.us.

**GOODHUE COUNTY
RED WING, MINNESOTA**

Year Ended December 31, 2014



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

This page was left blank intentionally.

**GOODHUE COUNTY
RED WING, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
Introductory Section		
Current Organization Chart		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		6
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Position	1	20
Statement of Activities	2	22
Fund Financial Statements		
Governmental Funds		
Balance Sheet	3	23
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position--Governmental Activities	4	25
Statement of Revenues, Expenditures, and Changes in Fund Balance	5	26
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities--Governmental Activities	6	28
Fiduciary Funds		
Statement of Fiduciary Net Position	7	29
Notes to the Financial Statements		30
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	A-1	68
Road and Bridge Special Revenue Fund	A-2	70
Health and Human Services Special Revenue Fund	A-3	71
Economic Development Authority Special Revenue Fund	A-4	72
Notes to the Required Supplementary Information		73

**GOODHUE COUNTY
RED WING, MINNESOTA**

TABLE OF CONTENTS

	Exhibit	Page
Financial Section (Continued)		
Supplementary Information		
Major Fund		
Budgetary Comparison Schedule - Debt Service Fund	B-1	74
Nonmajor Governmental Funds		75
Budgetary Comparison Schedule - Waste Management Special Revenue Fund	C-1	76
Agency Funds		77
Combining Statement of Changes in Assets and Liabilities - All Agency Funds	D-1	78
Other Schedules		
Schedule of Intergovernmental Revenue	E-1	80
Schedule of Expenditures of Federal Awards	E-2	82
Notes to the Schedule of Expenditures of Federal Awards		84
Other Information Section		
Tax Capacity, Tax Rates, Levies, and Percentage of Collections	F-1	86
Management and Compliance Section		
Schedule of Findings and Questioned Costs		88
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		95
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance		98

This page was left blank intentionally.

**GOODHUE COUNTY
RED WING, MINNESOTA**

**CURRENT ORGANIZATION CHART
2014**

			<u>Term Expires</u>
Elected Officers			
Commissioners			
Chair	Ted Seifert	District 5	January 2017
Vice Chair	Dan Rechtzigel	District 3	January 2017
Board Member	Ronald Allen	District 1	January 2017
Board Member	Brad Anderson	District 2	January 2019
Board Member	Jason Majerus	District 4	January 2019
Attorney	Steven N. Betcher		January 2019
County Sheriff	Scott McNurlin		January 2019
 Appointed Officials			
Administrator	Scott Arneson		Indefinite
Court Services	Joanne Pohl		Indefinite
Facilities Maintenance	Rick Seyffer		Indefinite
Finance Director	Carolyn Holmsten		Indefinite
Human Resources	Melissa Cushing		Indefinite
Health and Human Services	Nina Arneson		Indefinite
Information Technology	Randy Johnson		Indefinite
Land Use Management/Recorder	Lisa Hanni		Indefinite
Public Works	Greg Isakson		Indefinite
Veterans Service Officer	Lyman M. Robinson, Jr.		March 2018

This page was left blank intentionally.

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Goodhue County
Red Wing, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Goodhue County, Minnesota, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the South Country Health Alliance (SCHA) for the year ended December 31, 2014, in which Goodhue County has an equity interest. The SCHA is a joint venture discussed in Note 4.C. to the financial statements. The County's investment in the SCHA, \$3,942,372, represents 2.0 and 2.3 percent, respectively, of the assets and net position of the governmental activities. The financial statements of the SCHA, which were prepared in accordance with financial reporting provisions permitted by the Minnesota Department of Health, were audited by other auditors, whose report thereon has been furnished to us. We have applied procedures on the conversion adjustment to the financial statements of the SCHA, which conform the financial reporting of the investment in joint venture to accounting principles generally accepted in the United States of America. Our opinion, insofar as it relates to the amount included as an investment in joint venture, prior to these conversion adjustments, is based solely on the report of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained

in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of South Country Health Alliance were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Goodhue County as of December 31, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Reporting Entity

Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, clarified certain requirements for inclusion of component units in the financial reporting entity. As a result, no financial benefit or burden relationship exists between Goodhue County and the Belle Creek Watershed District. The Watershed District is no longer reported as a discretely presented component unit of Goodhue County. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management

about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Goodhue County's basic financial statements. The supplementary information and the other information section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2015, on our consideration of Goodhue County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Goodhue County's internal control over financial reporting and compliance. It does not include the South Country Health Alliance, which was audited by other auditors.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 11, 2015

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

This page was left blank intentionally.

**GOODHUE COUNTY
RED WING, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014
(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, 2014. We encourage readers to consider the information presented here in conjunction with the County's financial activity and performance.

HIGHLIGHTS

- On December 31, 2014, Goodhue County's total assets exceed liabilities and deferred inflows of resources by \$170,822,511, of which \$135,880,303 is the net investment in capital assets and \$2,447,518 is restricted to specific purposes. This leaves year-end unrestricted net position of \$32,494,690.
- Goodhue County's net position increased by \$6,272,685 from current operations for the year ended December 31, 2014 (\$10.5 million increase in total assets, \$6.6 million increase in total liabilities, and a decrease of \$2.4 million in deferred inflows of resources).
- Overall program expenses for 2014 were \$49,604,252, a decrease of \$3,627,033 (6.8 percent) from 2013. The largest area of decrease was in highways and streets where the County wrapped up the major interchange project on Highway 52. Revenues increased by 7.2 percent, or \$3,760,910, during 2014. The largest area of increase can be found in capital grants and contributions with federal highway construction dollars making up most of this increase. General revenues contributed \$30,782,934 towards program expenses, an increase of \$1,030,884 from the previous year.
- The older County debt issued in 2005 was paid off in 2014 for about \$1.86 million. Current debt was issued in 2012 and 2014.
- The Board continues to analyze long-range needs for the County's highways and streets. US Highway 52, which runs north and south within the County, has been updated with federal, state, and local dollars. The Mayo Clinic Health System has built a new facility just off US Highway 52 in Cannon Falls and opened in September 2014. Detailed plans are being put together for a Highway 9 overpass to circle the southeast side of Cannon Falls. State funding contributes to the projects; however, the Board sold bonds in 2014 to complete the financing.

- In addition to planning for highway needs, the Board decided to move forward with a remodel of the County's Citizens Building. Plans were finalized, and bid specifications were released in the Fall of 2014. Bonds were sold in March 2015 for a total of \$10,720,000 with \$7,085,000 for the Citizen's Building remodel and \$3,635,000 to pay for other capital needs.
- At the end of 2014, the General Fund's unassigned fund balance was \$11,209,969, which represents approximately 44 percent of expenditures for the year (\$25,637,086). In 2013, the General Fund's unassigned fund balance was \$10,435,915, which was approximately 44 percent of expenditures for the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The three main sections of this report are: introduction, financial, and supplementary. The introduction contains the County's organization structure and principal officials. The financial section includes the MD&A and is intended to serve as a roadmap of the basic financial statements. These statements consist of three parts: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The required supplementary information section contains the budget to actual presentation for the County's major funds. Other supplementary information is included to enhance the reader's understanding of County financial activity (such as information about federal grant programs).

Government-Wide Financial Statements

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

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

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.

The financial statements provide two other sources of information:

1. Budgetary comparisons:

Goodhue County adopts an annual budget for the General Fund, all special revenue funds, and the Debt Service Fund. Budgetary comparison schedules are provided 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 position may be a useful indicator of a government's financial position over time. As of December 31, 2014, assets exceeded liabilities by \$170,822,511. The following table provides a summary of Goodhue County's governmental net position which increased \$6,272,685 from the previous year.

Table 1
Net Position

	Governmental Activities		
	2014	2013	\$ Change
Current and other assets	\$ 45,761,248	\$ 44,871,454	\$ 889,794
Capital assets (net)	147,912,697	138,329,398	9,583,299
Total Assets	\$ 193,673,945	\$ 183,200,852	\$ 10,473,093
Long-term debt outstanding	\$ 19,719,147	\$ 13,562,060	\$ 6,157,087
Other liabilities	3,132,287	2,718,966	413,321
Total Liabilities	\$ 22,851,434	\$ 16,281,026	\$ 6,570,408
Deferred Inflows of Resources	\$ -	\$ 2,370,000	\$ (2,370,000)
Net Position			
Net investment in capital assets	\$ 135,880,303	\$ 130,077,471	\$ 5,802,832
Restricted	2,447,518	2,110,746	336,772
Unrestricted	32,494,690	32,361,609	133,081
Total Net Position	\$ 170,822,511	\$ 164,549,826	\$ 6,272,685

The largest portion of Goodhue County’s net position, 79.5 percent, or approximately \$136 million, represents investments in capital assets, less any related debt used to acquire those assets. Capital assets are investments in land, buildings, machinery, and equipment, as well as roads and bridges. These assets are used to provide services and utilities to County citizens and, consequently, are not available for future spending. Resources needed to repay the debt must be provided from other sources since the assets themselves cannot be used to liquidate these liabilities.

An additional \$32 million of net position, or 19 percent, represents unrestricted net position that may be used to meet ongoing obligations to citizens and creditors. In 2014, unrestricted net position increased by \$133,081.

Governmental Activities

Reflected in Table 2 are the changes in revenues and expenses sorted by activity. Total 2014 revenue for County Governmental Activities increased by 7.2 percent; expenses decreased by 6.8 percent.

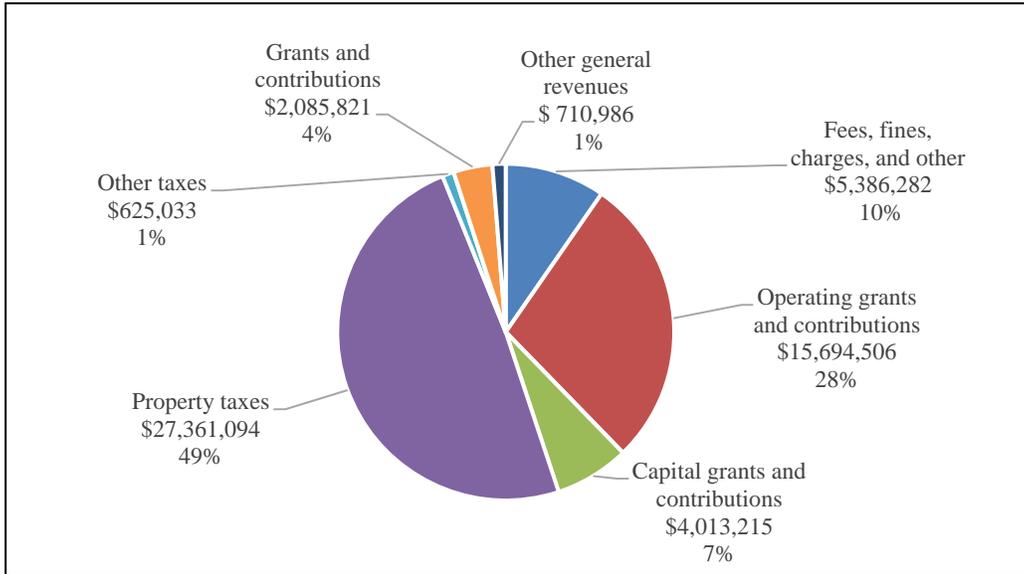
Table 2
Changes in Net Position

	Governmental Activities			% Change
	2014	2013	\$ Change	
Revenues				
Program revenues				
Fees, fines, charges, and other	\$ 5,386,282	\$ 5,505,970	\$ (119,688)	(2.2)
Operating grants and contributions	15,694,506	16,424,589	(730,083)	(4.4)
Capital grants and contributions	4,013,215	433,418	3,579,797	825.9
General revenues				
Property taxes	27,361,094	26,934,798	426,296	1.6
Other taxes	625,033	159,158	465,875	292.7
Grants and contributions	2,085,821	1,805,146	280,675	15.5
Other general revenues	710,986	852,948	(141,962)	(16.6)
Total Revenues	\$ 55,876,937	\$ 52,116,027	\$ 3,760,910	7.2
Program expenses				
General government	\$ 12,872,848	\$ 10,166,886	\$ 2,705,962	26.6
Public safety	13,021,732	12,341,409	680,323	5.5
Highways and streets	8,605,987	16,202,194	(7,596,207)	(46.9)
Sanitation	763,417	689,583	73,834	10.7
Human services	10,013,359	9,689,420	323,939	3.3
Health	2,650,021	2,340,880	309,141	13.2
Culture and recreation	687,744	585,585	102,159	17.4
Conservation of natural resources	707,371	685,989	21,382	3.1
Economic development	81,032	206,740	(125,708)	(60.8)
Interest	200,741	322,599	(121,858)	(37.8)
Total Program Expenses	\$ 49,604,252	\$ 53,231,285	\$ (3,627,033)	(6.8)
Increase (Decrease) in Net Position	\$ 6,272,685	\$ (1,115,258)	\$ 7,387,943	(662.4)
Net Position - January 1	164,549,826	165,665,084	(1,115,258)	(0.7)
Net Position - December 31	\$ 170,822,511	\$ 164,549,826	\$ 6,272,685	3.8

Overall, County governmental program revenues increased from \$22,363,977 in 2013 to \$25,094,003 in 2014, with a large increase in capital grants and contributions. The County paid for the remaining “public benefit” portion of governmental activities with 2014 general revenue dollars of \$30,782,934, up \$1,030,884 from 2013. General revenues, which are made up of primarily taxes, also include grants and the sale of capital assets.

Total program expenditures reflect a net decrease of 6.8 percent. The decrease seen in highways and streets of \$7,596,207 is due to the fact that the County had a larger volume of projects scheduled during 2013. In program areas where expenses were down, those decreases ranged from 37.8 percent (Interest) to 60.8 percent (Economic Development).

**Governmental Activities
Revenues by Source**



Per Table 2, one can see the cost of all governmental activities in 2014 was \$49,604,252, compared to \$53,231,285 in 2013. However, as shown in the Statement of Activities (Financial Statement Exhibit 2), not all of this is paid with County taxes. Those who directly benefited from the programs paid \$5,386,282 of the cost. For example, direct users are charged things such as building permit fees, recording fees, inmate boarding fees, etc. Another \$19,707,721 was covered by other governments and organizations that subsidized either a specific program or general operations with operating or capital grants and contributions. Some examples of grants received are State Construction, State Police Aid, Probation Officer Salary Reimbursements, WIC, and other Health and Human Services programs. The total amount financed for governmental activities through County general revenues was \$30,782,934.

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.

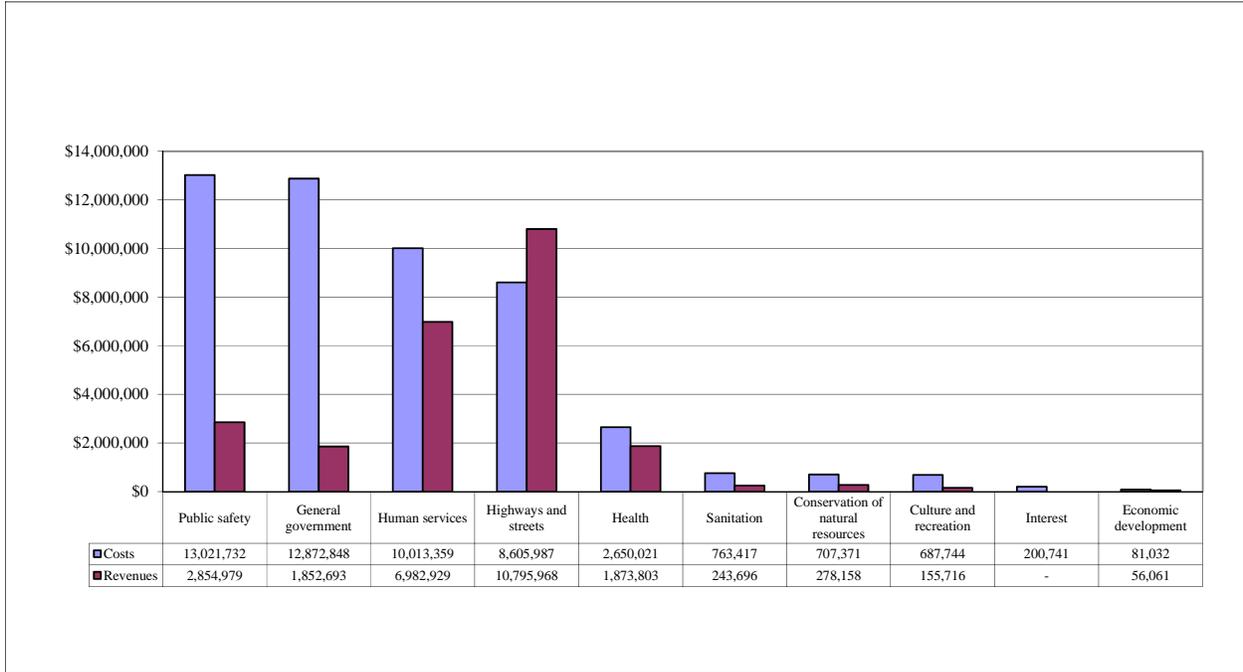
Table 3
Governmental Activities
Costs of Services

	Total Cost of Services		
	2014	2013	\$ Change
Public safety	\$ 13,021,732	\$ 12,341,409	\$ 680,323
General government	12,872,848	10,166,886	2,705,962
Human services	10,013,359	9,689,420	323,939
Highways and streets	8,605,987	16,202,194	(7,596,207)
Health	2,650,021	2,340,880	309,141
All others	2,440,305	2,490,496	(50,191)
Totals	\$ 49,604,252	\$ 53,231,285	\$ (3,627,033)

	Net Cost of Services		
	2014	2013	\$ Change
Public safety	\$ 10,166,753	\$ 10,160,269	\$ 6,484
General government	11,020,155	8,246,110	2,774,045
Human services	3,030,430	3,606,889	(576,459)
Highways and streets	(2,189,981)	7,032,509	(9,222,490)
Health	776,218	233,814	542,404
All others	1,706,674	1,587,717	118,957
Totals	\$ 24,510,249	\$ 30,867,308	\$ (6,357,059)

The net cost of services decreased \$6,357,059, or 20.6 percent, compared to the previous year. As shown in Table 3 above, highway projects decreased 145 percent, and general government increased 44 percent. The following chart represents, by program, the costs incurred for these County services and the program revenues received in conjunction with those services. The difference leads to the amount of tax revenues needed to help offset operational costs.

**Governmental Activities
Costs and Program Revenues**



Fund Level Financial Analysis

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

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

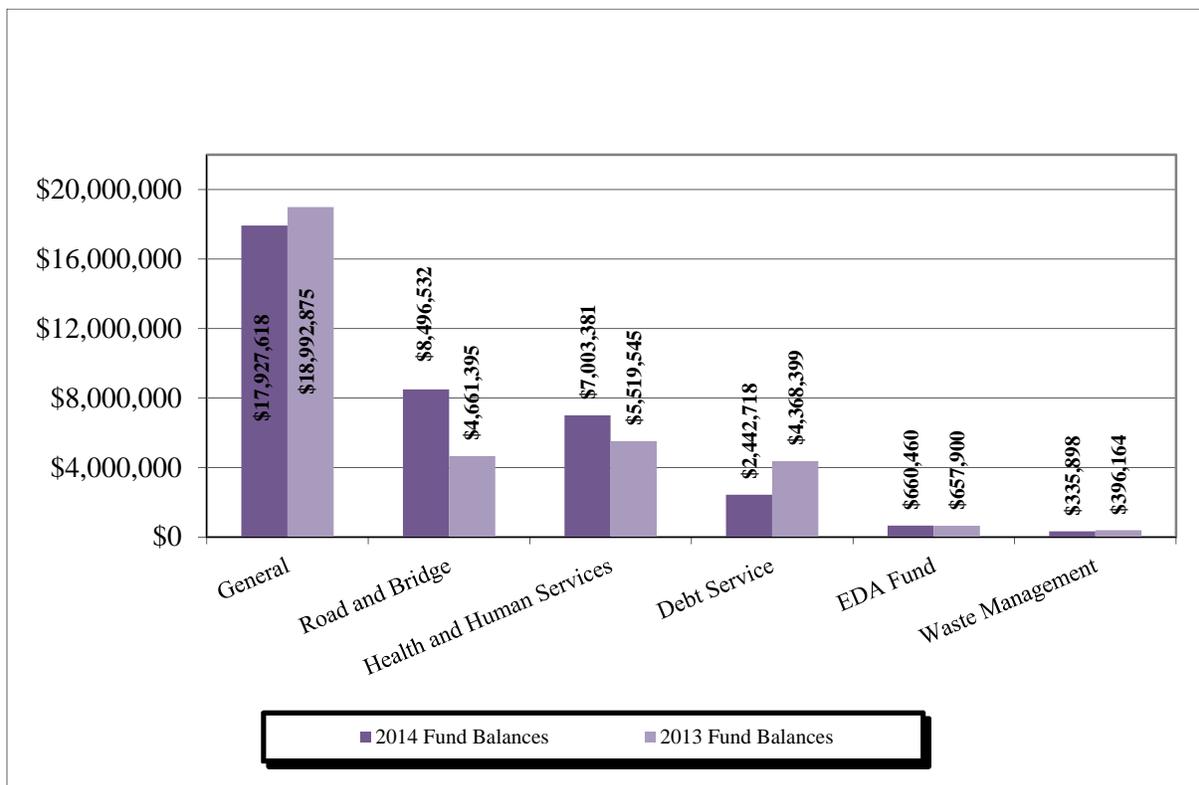
The focus of Goodhue County’s governmental funds is to provide information on near-term inflows, outflows, and balances of available resources. Therefore, the timing of cash flows is taken into account in the governmental fund financial statements, while it is disregarded in the government-wide statements.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

The County's Funds

Goodhue County utilizes five major governmental funds. These funds are: (1) General, (2) Road and Bridge Special Revenue, (3) Health and Human Services Special Revenue, (4) Economic Development Authority Special Revenue, and (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 \$36,866,607. This represents an increase of almost \$2.3 million (6.6 percent) from December 31, 2013. Most of this increase can be attributed to Road and Bridge where there remains a residual balance of bond proceeds for financing ongoing construction projects.

**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 \$1,065,257, or 5.6 percent, in 2014. This was largely due to utilization of fund balance for capital projects.

The Road and Bridge Special Revenue Fund accounts for maintenance and improvements to the infrastructure of the County. The \$8.5 million fund balance at the end of 2014 represents a significant increase of \$3.8 million (82.3 percent) over 2013 and is a direct result of unspent bond proceeds from 2014. These bond proceeds should be depleted by the end of 2015.

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 \$7.0 million fund balance at the end of 2014, up \$1.5 million from 2013. The fund continues to monitor its spending as approximately half of its revenue comes from other governmental sources.

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

The Debt Service Fund contains resources designated for the repayment of debt obligations - yearly principal and interest payments on existing bonds. Most of these funds are derived from tax revenues. The fund had a \$2.4 million fund balance at the end of 2014, which was \$1.9 million less than the previous year. This will be used to contribute to principal and interest payments due in February of the following year.

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

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

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

General Fund Budgetary Highlights

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

On December 31, 2014, the County's General Fund actual expenditures were \$503,667 over the projected budget. The biggest area of budget overage was in buildings and plant where actual expenditures were \$1.2 million over budget. After a review of fund balances, the Board decided to move forward with a number of capital projects utilizing reserves rather than bonding for the projects.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2014, the County had \$147,912,697 invested in a broad range of capital assets, including land, buildings, equipment, and infrastructure. (See Table 4 below.) This represents a net increase of \$9,583,299.

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

	Governmental Activities		
	2014	2013	\$ Change
Land	\$ 8,892,773	\$ 8,757,443	\$ 135,330
Construction in progress	5,722,128	5,556,548	165,580
Buildings and land improvements	20,273,217	21,290,847	(1,017,630)
Machinery, vehicles, furniture, and equipment	11,127,153	10,647,154	479,999
Infrastructure	101,897,426	92,077,406	9,820,020
Totals	<u>\$ 147,912,697</u>	<u>\$ 138,329,398</u>	<u>\$ 9,583,299</u>

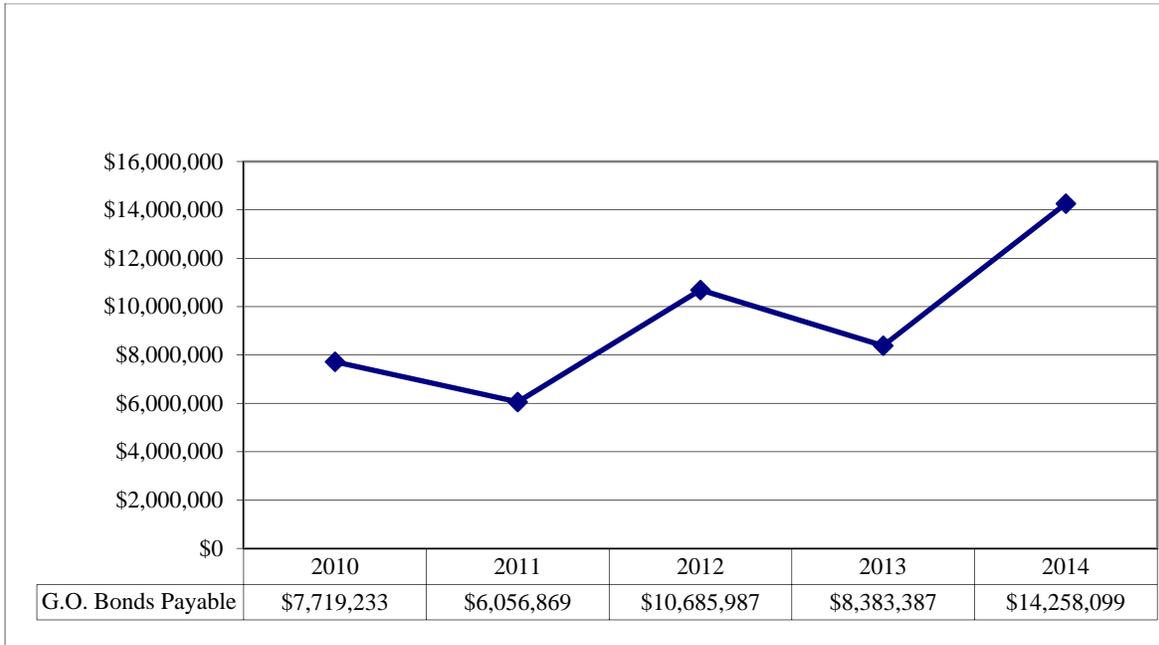
Debt Administration

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

As of December 31, 2014, the County had \$14,258,099 in bonds and notes outstanding, an increase of \$5,874,712 as shown in Table 5. Debt of \$1.9 million was paid in 2014.

The Board sold \$7,760,000 in bonds in 2014 to complete the financing of a number of highway projects. In addition, it is planning to renovate a current building in 2015 which houses several departments. Knowing the final payment on the 2005B Jail Bonds was to be made in 2014 and realizing the need to take care of the public facilities, the Board explored highway and facility bond structures to keep them within its current \$2.0 million self-imposed debt levy limit.

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



Other long-term liabilities on December 31, 2014, include: compensated absence liability (accrued vacation and sick leave payable) of \$4,301,419 and landfill closure and postclosure care liability of \$994,108. More detailed information about the County’s long-term liabilities is presented in Note 2.C. of the financial statements.

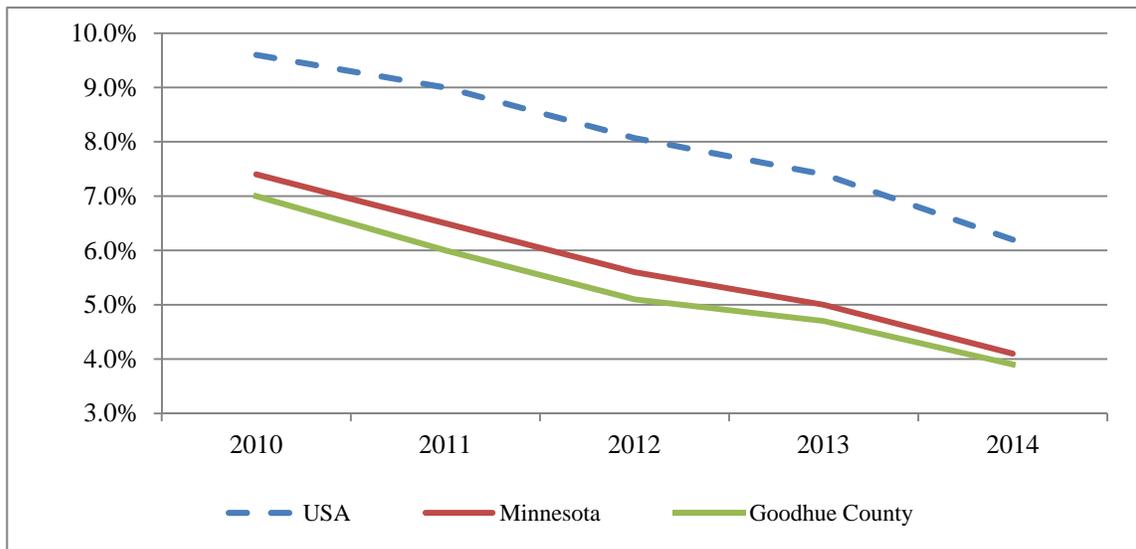
ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS

Unemployment

The 12-month average for unemployment in 2014 for the U.S., Minnesota, and Goodhue County was 6.2 percent, 4.1 percent, and 3.9 percent, respectively. This compared to 2013 of 7.4 percent, 5.0 percent, and 4.7 percent. As outlined in Table 6, Goodhue County and the State of Minnesota continue to trend well below national unemployment averages. Current 2015 average unemployment rates for April 2015 were 5.1 percent, 3.8 percent, and 3.5 percent for the U.S., Minnesota, and Goodhue County, respectively. Like all local units of government, we are very concerned about both the national and local economic conditions and the impacts on our County. We believe the County will continue to trend below the national average. The County is not aware of any work force reductions in the area with businesses continuing to strive for economic stability, followed by growth. In fact, there is a local company making a large addition in 2014 which it indicates will bring 100 new jobs to the County.

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

	2010	2011	2012	2013	2014	Average
USA	9.6%	9.0%	8.1%	7.4%	6.2%	8.1%
Minnesota	7.4%	6.5%	5.6%	5.0%	4.1%	5.7%
Goodhue County	7.0%	6.0%	5.1%	4.7%	3.9%	5.3%
Average	8.0%	7.2%	6.3%	5.7%	4.7%	6.4%



Property Value Growth

Agricultural property values remained stable for Payable 2014. Land is expected to hold steady.

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

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

State Financial Position

The County's elected and appointed officials considered many factors when setting the fiscal year 2014 budget and the tax rates and fees that were charged for government services. Goodhue County relies on state-paid aids, credits, and grants. Should the State of Minnesota significantly change the formula for state-provided payments to the County, it could potentially have a significant impact on the following year's budget.

Budgeting Approach

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

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

This page was left blank intentionally.

**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2014**

Assets

Cash and pooled investments	\$	32,529,190
Petty cash and change funds		2,050
Taxes receivable		
Prior		483,293
Special assessments receivable		
Current		19,857
Noncurrent		23,884
Accounts receivable		465,590
Accrued interest receivable		39,081
Loans receivable		967,009
Due from other governments		6,130,162
Inventories		535,478
Prepaid items		404,560
Restricted assets		
Cash and pooled investments		218,722
Investment in joint venture		3,942,372
Capital assets		
Non-depreciable		14,614,901
Depreciable - net of accumulated depreciation		133,297,796
		193,673,945
Total Assets	\$	193,673,945

Liabilities

Accounts payable	\$	1,296,153
Salaries payable		686,158
Contracts payable		473,859
Due to other governments		505,307
Accrued interest payable		39,736
Unearned revenue		116,343
Customer deposits		14,731
Long-term liabilities		
Due within one year		3,552,007
Due in more than one year		16,167,140
		22,851,434
Total Liabilities	\$	22,851,434

**GOODHUE COUNTY
RED WING, MINNESOTA**

***EXHIBIT 1
(Continued)***

**STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2014**

Net Position

Net investment in capital assets	\$ 135,880,303
Restricted for	
General government	288,884
Public safety	354,957
Highways and streets	618,692
Sanitation	75,799
Conservation of natural resources	32,879
Economic development	607,797
Debt service	99,615
Landfill postclosure	218,722
Gravel pit postclosure	150,173
Unrestricted	<u>32,494,690</u>
Total Net Position	<u><u>\$ 170,822,511</u></u>

**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Fees, Charges, Fines, and Other</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<u>Functions/Programs</u>					
Primary government					
Governmental activities					
General government	\$ 12,872,848	\$ 1,615,796	\$ 236,897	\$ -	\$ (11,020,155)
Public safety	13,021,732	1,640,103	1,214,876	-	(10,166,753)
Highways and streets	8,605,987	40,736	6,742,017	4,013,215	2,189,981
Sanitation	763,417	237,027	6,669	-	(519,721)
Human services	10,013,359	1,108,800	5,874,129	-	(3,030,430)
Health	2,650,021	584,869	1,288,934	-	(776,218)
Culture and recreation	687,744	400	155,316	-	(532,028)
Conservation of natural resources	707,371	102,490	175,668	-	(429,213)
Economic development	81,032	56,061	-	-	(24,971)
Interest	200,741	-	-	-	(200,741)
Total Governmental Activities	\$ 49,604,252	\$ 5,386,282	\$ 15,694,506	\$ 4,013,215	\$ (24,510,249)
General Revenues					
Property taxes					\$ 27,361,094
Gravel taxes					119,328
Mortgage registry and deed tax					33,018
Wheelage tax					472,687
Payments in lieu of tax					226,420
Grants and contributions not restricted to specific programs					2,085,821
Unrestricted investment earnings					144,985
Miscellaneous					277,107
Gain on sale of capital assets					62,474
Total general revenues					\$ 30,782,934
Change in net position					\$ 6,272,685
Net Position - Beginning					164,549,826
Net Position - Ending					\$ 170,822,511

This page was left blank intentionally.

FUND FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENTAL FUNDS

**GOODHUE COUNTY
RED WING, MINNESOTA**

**BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 18,072,198	\$ 5,105,779
Petty cash and change funds	1,375	50
Taxes receivable		
Prior	287,802	62,248
Special assessments		
Current	7,915	-
Prior	-	-
Accounts receivable	43,047	22,490
Accrued interest receivable	39,081	-
Due from other funds	11,433	1,069
Due from other governments	555,403	4,523,083
Prepaid items	248,047	31,525
Inventories	-	535,478
Loans receivable	28,950	-
Restricted assets		
Cash and pooled investments	-	-
	\$ 19,295,251	\$ 10,281,722
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 240,085	\$ 542,302
Salaries payable	418,325	48,213
Contracts payable	-	473,859
Due to other funds	1,069	-
Due to other governments	152,591	8,146
Unearned revenue	116,343	-
Customer deposits	14,731	-
	\$ 943,144	\$ 1,072,520
Deferred Inflows of Resources		
Unavailable revenue	\$ 424,489	\$ 712,670
Fund Balances		
Nonspendable	\$ 248,047	\$ 567,003
Restricted	902,692	2,313,297
Committed	3,168,676	405,585
Assigned	2,398,234	5,210,647
Unassigned	11,209,969	-
	\$ 17,927,618	\$ 8,496,532
	\$ 17,927,618	\$ 8,496,532
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 19,295,251	\$ 10,281,722

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>
\$ 6,517,278	\$ 260,618	\$ 2,435,172	\$ 138,145	\$ 32,529,190
550	-	-	75	2,050
90,667	257	36,455	5,864	483,293
-	-	11,942	-	19,857
-	-	23,884	-	23,884
390,237	-	-	9,816	465,590
-	-	-	-	39,081
-	-	-	-	12,502
1,046,921	-	-	4,755	6,130,162
120,694	-	-	4,294	404,560
-	-	-	-	535,478
-	938,059	-	-	967,009
-	-	-	218,722	218,722
<u>\$ 8,166,347</u>	<u>\$ 1,198,934</u>	<u>\$ 2,507,453</u>	<u>\$ 381,671</u>	<u>\$ 41,831,378</u>
\$ 488,628	\$ 478	\$ 935	\$ 23,725	\$ 1,296,153
211,038	-	-	8,582	686,158
-	-	-	-	473,859
4,923	6,510	-	-	12,502
335,520	-	-	9,050	505,307
-	-	-	-	116,343
-	-	-	-	14,731
<u>\$ 1,040,109</u>	<u>\$ 6,988</u>	<u>\$ 935</u>	<u>\$ 41,357</u>	<u>\$ 3,105,053</u>
<u>\$ 122,857</u>	<u>\$ 531,486</u>	<u>\$ 63,800</u>	<u>\$ 4,416</u>	<u>\$ 1,859,718</u>
\$ 120,694	\$ -	\$ -	\$ 4,294	\$ 940,038
-	607,797	99,615	218,722	4,142,123
259,179	52,663	2,343,103	35,075	6,264,281
6,623,508	-	-	77,807	14,310,196
-	-	-	-	11,209,969
<u>\$ 7,003,381</u>	<u>\$ 660,460</u>	<u>\$ 2,442,718</u>	<u>\$ 335,898</u>	<u>\$ 36,866,607</u>
<u>\$ 8,166,347</u>	<u>\$ 1,198,934</u>	<u>\$ 2,507,453</u>	<u>\$ 381,671</u>	<u>\$ 41,831,378</u>

This page was left blank intentionally.

**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2014**

Fund balances - total governmental funds (Exhibit 3)		\$	36,866,607
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.			147,912,697
Investment in joint venture is not available to pay for current period expenditures and, therefore, is not reported in the governmental funds.			3,942,372
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			1,859,718
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	\$	(14,120,000)	
Revenue bonds		(27,997)	
Bond issuance discounts		30,085	
Bond issuance premiums		(195,606)	
Notes payable		(110,102)	
Compensated absences		(4,301,419)	
Accrued interest payable		(39,736)	
Landfill postclosure care liability		(994,108)	
		<u> </u>	<u>(19,758,883)</u>
Net Position of Governmental Activities (Exhibit 1)		\$	<u>170,822,511</u>

**GOODHUE COUNTY
RED WING, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	General	Road and Bridge
Revenues		
Taxes	\$ 16,664,092	\$ 3,749,483
Special assessments	-	-
Licenses and permits	299,832	13,922
Intergovernmental	3,819,688	10,387,020
Charges for services	2,235,948	4,646
Fines and forfeits	14,643	-
Gifts and contributions	43,698	-
Investment earnings	136,919	-
Miscellaneous	1,316,608	29,116
	\$ 24,531,428	\$ 14,184,187
Expenditures		
Current		
General government	\$ 11,607,915	\$ -
Public safety	12,629,168	-
Highways and streets	-	19,197,616
Sanitation	-	-
Human services	-	-
Health	-	-
Culture and recreation	671,100	12,937
Conservation of natural resources	706,960	-
Economic development	4,375	-
Debt service		
Principal	17,568	-
Interest	-	-
Administrative (fiscal) charges	-	-
Intergovernmental		
Highways and streets	-	421,804
	\$ 25,637,086	\$ 19,632,357
Excess of Revenues Over (Under) Expenditures	\$ (1,105,658)	\$ (5,448,170)
Other Financing Sources (Uses)		
Transfers in	\$ 1,456,044	\$ 1,233,068
Transfers out	(1,478,117)	(8,544)
Bonds issued	-	7,760,000
Premiums on bonds issued	-	105,000
Proceeds from sale of capital assets	62,474	-
	\$ 40,401	\$ 9,089,524
Change in Fund Balance	\$ (1,065,257)	\$ 3,641,354
Fund Balance - January 1	18,992,875	4,661,395
Increase (decrease) in inventories	-	193,783
	\$ 17,927,618	\$ 8,496,532
Fund Balance - December 31	\$ 17,927,618	\$ 8,496,532

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>
\$ 5,326,410	\$ 12,465	\$ 1,955,831	\$ 337,470	\$ 28,045,751
-	-	26,588	-	26,588
-	-	-	7,163	320,917
7,746,467	164	62,627	10,775	22,026,741
1,245,847	1,000	-	53,157	3,540,598
-	-	-	-	14,643
-	-	-	-	43,698
-	-	7,255	328	144,502
438,318	55,588	-	176,706	2,016,336
\$ 14,757,042	\$ 69,217	\$ 2,052,301	\$ 585,599	\$ 56,179,774
\$ -	\$ -	\$ -	\$ -	\$ 11,607,915
-	-	-	-	12,629,168
-	-	-	-	19,197,616
-	-	-	857,695	857,695
11,100,757	-	-	-	11,100,757
2,723,168	-	-	-	2,723,168
-	-	-	-	684,037
-	-	-	-	706,960
-	76,657	-	-	81,032
-	-	1,867,720	-	1,885,288
-	-	129,259	-	129,259
-	-	96,609	-	96,609
-	-	-	-	421,804
\$ 13,823,925	\$ 76,657	\$ 2,093,588	\$ 857,695	\$ 62,121,308
\$ 933,117	\$ (7,440)	\$ (41,287)	\$ (272,096)	\$ (5,941,534)
\$ 558,219	\$ 10,000	\$ -	\$ 211,830	\$ 3,469,161
(7,500)	-	(1,975,000)	-	(3,469,161)
-	-	-	-	7,760,000
-	-	90,606	-	195,606
-	-	-	-	62,474
\$ 550,719	\$ 10,000	\$ (1,884,394)	\$ 211,830	\$ 8,018,080
\$ 1,483,836	\$ 2,560	\$ (1,925,681)	\$ (60,266)	\$ 2,076,546
5,519,545	657,900	4,368,399	396,164	34,596,278
-	-	-	-	193,783
\$ 7,003,381	\$ 660,460	\$ 2,442,718	\$ 335,898	\$ 36,866,607

**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 2,076,546

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

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

Unavailable revenue - December 31	\$ 1,859,718	
Unavailable revenue - January 1	(1,987,184)	(127,466)

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

Expenditures for general capital assets and infrastructure	\$ 16,907,930	
Net book value of assets sold	(1,228,258)	
Current year depreciation	(6,096,373)	9,583,299

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. 675,476

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

The net proceeds for debt issuance are		
Bonds issued	\$ (7,760,000)	
Premium on bonds issued	(195,606)	(7,955,606)
Principal repayments		
Expenditures for principal retirement		1,885,288

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 bond premiums and discounts	\$ (1,842)	
Change in accrued interest payable	28,134	
Change in landfill postclosure care liability	(33,710)	
Change in compensated absences	(51,217)	
Change in inventories	193,783	135,148

Change in Net Position of Governmental Activities (Exhibit 2) \$ 6,272,685

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

FIDUCIARY FUNDS

This page was left blank intentionally.

**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2014**

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and pooled investments	\$ 1,364,268
Accounts receivable	17,447
Due from other governments	<u>28,531</u>
Total Assets	<u><u>\$ 1,410,246</u></u>
<u>Liabilities</u>	
Due to other governments	<u><u>\$ 1,410,246</u></u>

This page was left blank intentionally.

**GOODHUE COUNTY
RED WING, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014

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, 2014. 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 component unit. 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, and the County can impose its will on the EDA.	Separate financial statements are not prepared.

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

The County participates in several joint ventures which are described in Note 4.C. The County also participates in jointly-governed organizations described in Note 4.D.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net position and the statement of activities) display information about the primary government. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities.

The government-wide statement of net position is presented on a consolidated basis and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations.

The County's net position is reported in three parts: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. The County first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those 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 not classified as program revenues, including all taxes, are presented as general revenues.

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

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

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

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

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Finance Director for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2014, 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 2014 were \$143,820.

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). The investment in the pool is measured at the net position value per share provided by the pool.

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

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

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

1. Deposits and Investments (Continued)

- (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."

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.

There is no allowance for uncollectible accounts receivable, taxes receivable, and special assessments receivable presented due to the amounts being minimal.

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.

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Inventories and Prepaid Items

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

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

4. Restricted Assets

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

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.

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Capital Assets (Continued)

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

7. Unearned Revenue

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Long-Term Obligations

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

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

9. Deferred Outflow/Inflows of Resources

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has one such item. The County reports unavailable revenue in connection with receivables for revenues not considered available to liquidate liabilities of the current period. Unavailable

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Deferred Outflow/Inflows of Resources (Continued)

revenue arises only under the modified accrual basis of accounting and is reported only in the governmental funds. Unavailable revenue is reported in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

10. Classification of Net Position

Net position in government-wide statements is classified in the following categories:

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

Restricted net position - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law though constitutional provisions or enabling legislation.

Unrestricted net position - the amount of net position that does not meet the definition of restricted or net investment in capital assets.

11. Classification of Fund Balances

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

Nonspendable - amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Classification of Fund Balances (Continued)

Restricted - amounts for which 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 - amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts.

Assigned - amounts the County intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board or the County Administrator or the Finance Director who have been delegated that authority by Board resolution.

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

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Classification of Fund Balances (Continued)

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

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

12. Use of Estimates

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

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.

**GOODHUE COUNTY
RED WING, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Revenues

Intergovernmental (Continued)

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

Exchange Transactions

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

F. Future Change in Accounting Standards

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, replaces Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to employer governments that provide pensions through pension plans administered as trusts or similar arrangement that meet certain criteria. GASB Statement 68 requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement will be effective for the County's calendar year 2015. The County has not yet determined the financial statement impact of adopting this new standard.

**GOODHUE COUNTY
RED WING, MINNESOTA**

2. 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 statements follows:

Governmental funds	
Cash and pooled investments	\$ 32,529,190
Petty cash and change funds	2,050
Restricted cash	218,722
Fiduciary funds	
Agency funds	
Cash and pooled investments	1,364,268
Total Cash and Investments	\$ 34,114,230
Deposits	\$ 21,143,854
Petty cash and change funds	2,050
Investments	12,968,326
Total	\$ 34,114,230

a. Deposits

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

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a financial institution failure, the County's deposits may not be returned to it. The County's policy on custodial credit risk mirrors state statute. As of December 31, 2014, 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**

2. 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. On December 31, 2014, the County's investments were not exposed to custodial credit risk.

Concentration of Credit Risk

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

The following table presents the County's investment balances at December 31, 2014, and information relating to potential custodial and concentration credit risks:

Investment - Issuer	Credit Risk		Concentration Risk (%)	Carrying (Fair) Value
	Credit Rating	Rating Agency		
Mutual funds				
MAGIC - cash management funds	N/A	N/A	N/A	\$ 5,007
Wells Fargo Brokerage - money market mutual funds	Aa3	Moody's	N/A	<u>132,725</u>
Total mutual funds				\$ 137,732

**GOODHUE COUNTY
RED WING, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Investment - Issuer	Credit Risk		Concentration Risk (%)	Carrying (Fair) Value
	Credit Rating	Rating Agency		
Municipal bonds				
Wells Fargo Brokerage				
St. Croix County, Wisconsin	Aa1	Moody's	<5%	388,607
Bonds				
Small Business Administration				
Wells Fargo Brokerage			N/A	116,009
EE U.S. Savings Bonds	N/A	N/A	N/A	30,675
Negotiable certificates of deposit	N/A	N/A	N/A	12,295,303
Total Investments				<u>\$ 12,968,326</u>

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

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
Municipal bonds				
St. Croix County, Wisconsin	\$ 388,607	\$ 388,607	\$ -	\$ -
Bonds				
Small Business Administration	\$ 116,009	\$ -	\$ -	\$ 116,009
EE U.S. Savings Bonds	30,675	-	-	30,675
Total bonds	\$ 146,684	\$ -	\$ -	\$ 146,684
Negotiable certificates of deposit	\$ 12,295,303	\$ 9,224,152	\$ 1,128,240	\$ 1,942,911
Total Investments Subject to Interest Rate Risk	\$ 12,830,594	<u>\$ 9,612,759</u>	<u>\$ 1,128,240</u>	<u>\$ 2,089,595</u>
Investments not subject to interest rate risk	137,732			
Total Investments	<u>\$ 12,968,326</u>			

**GOODHUE COUNTY
RED WING, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2014, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 483,293	\$ -
Special assessments	43,741	23,884
Due from other governments	6,130,162	-
Accounts (net)	465,590	-
Interest	39,081	-
Loans receivable	967,009	903,584
Total Governmental Activities	\$ 8,128,876	\$ 927,468

Of the loans receivable, \$938,059 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 \$885,426 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, 2014, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 8,757,443	\$ 135,330	\$ -	\$ 8,892,773
Construction in progress	5,556,548	5,689,252	5,523,672	5,722,128
Total capital assets not depreciated	\$ 14,313,991	\$ 5,824,582	\$ 5,523,672	\$ 14,614,901

**GOODHUE COUNTY
RED WING, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets depreciated				
Land improvements	\$ 252,269	\$ -	\$ -	\$ 252,269
Buildings	37,445,006	960,161	2,731,945	35,673,222
Machinery, furniture, and equipment	19,297,310	1,831,586	524,559	20,604,337
Infrastructure	159,361,561	13,815,273	969,844	172,206,990
 Total capital assets depreciated	 \$ 216,356,146	 \$ 16,607,020	 \$ 4,226,348	 \$ 228,736,818
Less: accumulated depreciation for				
Land improvements	\$ 91,330	\$ 9,658	\$ -	\$ 100,988
Buildings	16,315,098	880,043	1,643,855	15,551,286
Machinery, furniture, and equipment	8,650,156	1,329,753	502,725	9,477,184
Infrastructure	67,284,155	3,876,919	851,510	70,309,564
 Total accumulated depreciation	 \$ 92,340,739	 \$ 6,096,373	 \$ 2,998,090	 \$ 95,439,022
 Total capital assets depreciated, net	 \$ 124,015,407	 \$ 10,510,647	 \$ 1,228,258	 \$ 133,297,796
 Capital Assets, Net	 \$ 138,329,398	 \$ 16,335,229	 \$ 6,751,930	 \$ 147,912,697

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

Governmental Activities	
General government	\$ 1,069,781
Public safety	576,086
Highways and streets, including depreciation of infrastructure assets	4,333,609
Human services	46,327
Health	1,002
Sanitation	65,861
Culture/recreation	3,707
 Total Depreciation Expense - Governmental Activities	 \$ 6,096,373

**GOODHUE COUNTY
RED WING, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2014, 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	\$ 4,923
	Economic Development Authority	6,510
Road and Bridge	General	<u>1,069</u>
		<u>\$ 12,502</u>
Total Due To/From Other Funds		

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, 2014, consisted of the following:

Transfers to General Fund from Road and Bridge Fund	\$ 8,544	Cannon Valley Trail
Transfers to General Fund from Health and Human Services Fund	7,500	Time on PH projects
Transfers to General Fund from Debt Service Fund	1,440,000	Financing capital
Transfers to Road and Bridge Fund from General Fund	2,628	OEM training drills
	623,008	Capital expenditures
	72,432	27th payroll costs
Transfers to Road and Bridge Fund from Debt Service Fund	535,000	Financing capital
Transfers to Health and Human Services Fund from General Fund	224,597	Capital expenditures
	10,067	Software lic/maint
	77,702	Termination payments
	4,199	OEM training drills
	241,654	27th payroll costs
Transfers to Economic Development Authority Fund from General Fund	10,000	1916 tax incentives
Transfers to Waste Management Fund from General Fund	11,456	27th payroll costs
	593	OEM training drills
	199,432	Capital expenditures
	349	Aquatic species reimbursement
	<u>349</u>	
Total Interfund Transfers	<u>\$ 3,469,161</u>	

**GOODHUE COUNTY
RED WING, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

C. Liabilities and Deferred Inflows of Resources

1. Construction Commitments

The government has active construction projects as of December 31, 2014. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Roads and bridges	\$ 4,382,307	\$ 144,333
Health and Human Services	-	5,298,000

2. Payables

Payables at December 31, 2014, were as follows:

	Governmental Activities
Accounts	\$ 1,296,153
Salaries	686,158
Contracts	473,859
Due to other governments	505,307
Total Payables	\$ 2,961,477

3. Capital Leases

The County has not entered into any capital lease agreements as of December 31, 2014.

**GOODHUE COUNTY
RED WING, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

4. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2014
General obligation bonds					
1997B G.O. Welch Village Revenue Bonds	2018	\$3,036 - \$4,094	1.58	\$ 143,750	\$ 27,997
1998, 2001, and 2003 G.O. Revenue Notes	2023	\$1,274 - \$8,784	0.00	175,670	110,102
2012A CIP Highway Project Bonds	2023	\$405,000 - \$1,720,000	0.50 - 1.85	5,065,000	5,065,000
2014A G.O. CIP Highway Project Bonds	2025	\$695,000 - \$965,000	2.00 - 2.50	7,760,000	7,760,000
2012B Taxable QECB Bonds	2027	\$1,295,000	3.45	1,295,000	1,295,000
Total General Obligation Bonds				<u>\$ 14,439,420</u>	<u>\$ 14,258,099</u>

5. Debt Service Requirements

Debt service requirements at December 31, 2014, were as follows:

Year Ending December 31	General Obligation CIP Bonds	
	Principal	Interest
2015	\$ 1,720,000	\$ 240,346
2016	1,370,000	238,785
2017	1,100,000	219,350
2018	1,120,000	201,630
2019	1,140,000	182,844
2020 - 2024	5,560,000	595,368
2025 - 2027	2,110,000	121,881
Total	<u>\$ 14,120,000</u>	<u>\$ 1,800,204</u>

**GOODHUE COUNTY
RED WING, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows and Resources

5. Debt Service Requirements (Continued)

Year Ending December 31	General Obligation Revenue Bonds		General Obligation Revenue Notes	
	Principal	Interest	Principal	Interest
2015	\$ 7,843	\$ 412	\$ 17,568	\$ -
2016	7,967	287	17,568	-
2017	8,093	161	17,568	-
2018	4,094	32	17,568	-
2019	-	-	11,568	-
2020 - 2023	-	-	28,262	-
Total	\$ 27,997	\$ 892	\$ 110,102	\$ -

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

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2014, 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	\$ 8,220,000	\$ 7,760,000	\$ 1,860,000	\$ 14,120,000	\$ 1,720,000
G.O. revenue bonds	35,717	-	7,720	27,997	7,843
G.O. notes	127,670	-	17,568	110,102	17,568
Deferred amounts					
For issuance premiums	1,165	195,606	1,165	195,606	-
For issuance discounts	(33,092)	-	(3,007)	(30,085)	-
Total bonds and notes payable	\$ 8,351,460	\$ 7,955,606	\$ 1,883,446	\$ 14,423,620	\$ 1,745,411
Closure and postclosure care	960,398	33,710	-	994,108	-
Compensated absences	4,250,202	2,083,765	2,032,548	4,301,419	1,806,596
Governmental Activity Long-Term Liabilities	\$ 13,562,060	\$ 10,073,081	\$ 3,915,994	\$ 19,719,147	\$ 3,552,007

**GOODHUE COUNTY
RED WING, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

6. Changes in Long-Term Liabilities (Continued)

Closure and postclosure care liabilities are liquidated by the Waste Management Special Revenue Fund. Compensated absences liabilities are generally liquidated by the General Fund and the Road and Bridge, Health and Human Services, and Waste Management Special Revenue Funds.

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 \$994,108 landfill closure and postclosure care liability at December 31, 2014, is based on what it would cost to perform all closure and postclosure care in 2014. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. Not included in the above liability are \$827,753 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, 2014, investments of \$218,722 are held for these purposes. These are reported as restricted assets on the statement of net position.

Because the amount in trust is considerably smaller than the estimated postclosure care and contingency costs, the state has required Goodhue County to obtain a letter of credit for \$1,910,000 to ensure financing is available, if needed.

**GOODHUE COUNTY
RED WING, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

8. Unearned Revenue/Deferred Inflows of Resource

As of December 31, 2014, the various components of unearned and unavailable revenue were as follows:

	Unearned Revenue	Unavailable Revenue
Delinquent property taxes	\$ -	\$ 365,467
Special assessments	-	43,741
Loans receivable	-	560,236
Intergovernmental	116,343	845,634
Charges for services	-	38,419
Miscellaneous	-	6,221
	\$ 116,343	\$ 1,859,718
Total Governmental Activities	\$ 116,343	\$ 1,859,718

D. Fund Balance

Nonspendable, Restricted, Committed, and Assigned Fund Balances

Fund balances of the governmental funds were designated as follows at December 31, 2014.

Nonspendable	General	Road and Bridge	Health and Human Services	Waste Management Fund	Economic Development Authority	Debt Services
Prepaid items	\$ 248,047	\$ 31,525	\$ 120,694	\$ 4,294	\$ -	\$ -
Inventories	-	535,478	-	-	-	-
Total Nonspendable Fund Balance	\$ 248,047	\$ 567,003	\$ 120,694	\$ 4,294	\$ -	\$ -

**GOODHUE COUNTY
RED WING, MINNESOTA**

2. Detailed Notes on All Funds

D. Fund Balance

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

<u>Restrictions</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>
Unclaimed funds	\$ 762	\$ -	\$ -	\$ -	\$ -	\$ -
Gravel pit postclosure	150,173	-	-	-	-	-
Law Library	3,417	-	-	-	-	-
Attorney's victim assistance	4,543	-	-	-	-	-
Recorder's technology equipment	189,419	-	-	-	-	-
Recorder's compliance fund	89,021	-	-	-	-	-
Veterans transportation	1,722	-	-	1,722	-	-
Aquatic invasive species prevention	30,026	-	-	-	-	-
Sheriff forfeiture activities	346	-	-	-	-	-
Sheriff's counteract	4,835	-	-	-	-	-
Sheriff's K-9 donations	75	-	-	-	-	-
Gun permit activities	34,248	-	-	-	-	-
Sheriff's contingency	1,150	-	-	-	-	-
E-911	237,890	-	-	-	-	-
Correction service fee	11,544	-	-	-	-	-
Local correctional fees	64,869	-	-	-	-	-
County ditch #1	2,853	-	-	-	-	-
Individual sewage treatment systems	75,799	-	-	-	-	-
Bonded highway construction projects	-	2,313,297	-	-	-	-
Landfill closure/postclosure	-	-	-	218,722	-	-
Debt (QECC lump sum due 2/1/2027)	-	-	-	-	-	99,615
EDA loan program (1998 IHP)	-	-	-	-	57,320	-
EDA loan program (2010 MIF)	-	-	-	-	550,477	-
Total Restricted Fund Balance	\$ 902,692	\$ 2,313,297	\$ -	\$ 218,722	\$ 607,797	\$ 99,615

<u>Commitments</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>
Petty cash and change funds	\$ 1,375	\$ 50	\$ 550	\$ 75	\$ -	\$ -
Debt service	-	-	-	-	-	2,343,103
Economic development	-	-	-	-	52,663	-
Landfill transfer station	-	-	-	35,000	-	-
Land use/environmental ordinance	261,285	-	-	-	-	-
Employee wellness program	2,679	-	-	-	-	-
Railroad Authority	930	-	-	-	-	-
Compensated absences	1,049,035	-	-	-	-	-
27th payroll (2015)	146,741	-	-	-	-	-
Tax court settlements	242,500	-	-	-	-	-
Natural, technological, human-caused hazards	1,000,000	-	-	-	-	-
Tax-forfeited property funding	8,468	-	-	-	-	-
Capital equipment/projects	415,485	-	-	-	-	-
Byllesby Dam	40,178	-	-	-	-	-
Byllesby Park and Trail	-	143,282	-	-	-	-
Health (SCHA distribution)	-	-	108,629	-	-	-
Out-of-home placement budget deficits	-	-	150,000	-	-	-
TH 52 development and construction	-	262,253	-	-	-	-
Total Committed Fund Balance	\$ 3,168,676	\$ 405,585	\$ 259,179	\$ 35,075	\$ 52,663	\$ 2,343,103

**GOODHUE COUNTY
RED WING, MINNESOTA**

2. Detailed Notes on All Funds

D. Fund Balance

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

<u>Assigned</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>
Employee training and development	\$ 39,236	\$ -	\$ -	\$ -	\$ -	\$ -
Highways and streets	-	5,200,851	-	-	-	-
Health and human services	-	-	5,531,107	-	-	-
Sanitation (waste management)	-	-	-	77,807	-	-
County program aid contingency	1,358,998	-	-	-	-	-
Building contingencies	1,000,000	-	-	-	-	-
Township turnbacks	-	9,796	-	-	-	-
e-Document Compass/Onbase CM	-	-	305,000	-	-	-
Potential state/federal funding cuts	-	-	250,000	-	-	-
Technology improvements	-	-	150,000	-	-	-
Hiawatha Valley mental health center contingency	-	-	237,401	-	-	-
Foster care budget deficits	-	-	150,000	-	-	-
Total Assigned Fund Balance	<u>\$ 2,398,234</u>	<u>\$ 5,210,647</u>	<u>\$ 6,623,508</u>	<u>\$ 77,807</u>	<u>\$ -</u>	<u>\$ -</u>

3. 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 five years of credited service.

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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.

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

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

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 in 2014. Public Employees Police and Fire Fund members were required to contribute 10.20 percent of their annual covered salary in 2014. Public Employees Correctional Fund members were required to contribute 5.83 percent of their annual covered salary.

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

In 2014, the County was required to contribute the following percentages of annual covered payroll:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	15.30
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2014, 2013, and 2012, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
General Employees Retirement Fund	\$ 1,063,249	\$ 1,017,025	\$ 1,001,424
Public Employees Police and Fire Fund	452,480	398,619	384,608
Public Employees Correctional Fund	231,320	219,672	213,440

These contribution amounts are equal to the contractually required contributions for each year as set by state statute. Contribution rates increased on January 1, 2015, in the General Employee Retirement Fund Coordinated Plan (6.50 percent for members and 7.50 percent for employers) and the Public Employees Police and Fire Fund (10.80 percent for members and 16.20 percent for employers).

B. Defined Contribution Plan

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

3. Pension Plans

B. Defined Contribution Plan (Continued)

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. 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, 2014, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 4,611	\$ 4,611
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

4. Summary of Significant Contingencies and Other Items

A. Risk Management

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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 \$480,000 per claim in 2014. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

B. Contingent Liabilities

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

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

4. 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 above-listed member counties.

**GOODHUE COUNTY
RED WING, MINNESOTA**

4. 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, 2014, was \$3,942,372. The equity interest is reported as an investment in joint venture on the government-wide statement of net position. Changes in equity are included in the government-wide statement of activities as Health and Human Services program expenses or revenues.

Complete financial statements for the SCHA can be obtained from the South Country Health Alliance at 100 West Fremont Street, Owatonna, Minnesota 55060, or from its fiscal agent at 2300 Park Drive, Suite 100, Owatonna, Minnesota 55060.

Southeast Minnesota Emergency Communications Board

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

Southeastern Minnesota Multi-County HRA

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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.

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 \$152,532 to the Cooperative.

Region One - Southeast Minnesota Homeland Security Emergency Management Organization

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

Southeast Minnesota Water Resources Board

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Joint Governed Organizations (Continued)

Southeastern Minnesota Libraries Cooperative (SELCO)

The Southeastern Minnesota Libraries Cooperative provides library services within the County. During the year, the County contributed \$468,000 to SELCO.

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.

**GOODHUE COUNTY
RED WING, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

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

Loan activity for 2014 and prior years is:

	<u>Prior Years</u>	<u>During 2014</u>
Number of loans made	52	-
Loans outstanding - January 1	\$ -	\$ 50,553
Loans made	453,179	-
Payments made on loans	<u>(402,626)</u>	<u>(21,603)</u>
Loans outstanding - December 31	<u>\$ 50,553</u>	<u>\$ 28,950</u>

G. Subsequent Events

On March 3, 2015, the County approved the issuance of G.O. Capital Improvement Bonds in the amount of \$10,720,000 for the renovation of the Citizen's Building and a number of other capital projects.

In July 2015, the South Country Health Alliance lost its bid to continue providing comprehensive health maintenance services to 11 of its 12 participating counties, including Goodhue County. The decision by the Minnesota Department of Human Services is being appealed by the 11 counties. The ultimate impact on the South Country Health Alliance and therefore Goodhue County's investment in the joint venture is unknown.

REQUIRED SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 16,629,191	\$ 16,629,191	\$ 16,664,092	\$ 34,901
Licenses and permits	294,770	294,770	299,832	5,062
Intergovernmental	3,622,612	3,622,612	3,819,688	197,076
Charges for services	2,267,010	2,267,010	2,235,948	(31,062)
Fines and forfeits	16,700	16,700	14,643	(2,057)
Gifts and contributions	32,300	31,177	43,698	12,521
Investment earnings	200,350	200,350	136,919	(63,431)
Miscellaneous	1,160,234	1,158,464	1,316,608	158,144
Total Revenues	\$ 24,223,167	\$ 24,220,274	\$ 24,531,428	\$ 311,154
Expenditures				
Current				
General government				
Commissioners	\$ 270,208	\$ 274,004	\$ 258,232	\$ 15,772
Courts	106,500	106,500	125,630	(19,130)
County administration	406,048	407,213	392,071	15,142
County auditor-treasurer	694,314	694,314	676,519	17,795
County assessor	947,620	947,620	925,562	22,058
Elections	76,855	76,855	69,756	7,099
Information technology	1,045,588	1,045,588	998,418	47,170
Human resources	377,913	377,913	397,459	(19,546)
Attorney	1,730,220	1,730,220	1,661,847	68,373
Law library	95,450	95,450	74,814	20,636
Recorder	691,763	691,763	644,322	47,441
Surveyor	318,247	318,247	297,365	20,882
GIS	231,648	231,648	128,775	102,873
Building permits	354,776	354,776	342,037	12,739
Planning and zoning	403,190	403,190	384,324	18,866
Environmental health	204,458	204,458	186,939	17,519
Buildings and plant	1,895,494	1,929,846	3,083,422	(1,153,576)
Veterans service officer	224,204	224,204	201,121	23,083
Other general government	519,114	519,114	759,302	(240,188)
Total general government	\$ 10,593,610	\$ 10,632,923	\$ 11,607,915	\$ (974,992)
Public safety				
Sheriff	\$ 5,478,955	\$ 5,478,955	\$ 5,310,255	\$ 168,700
Sheriff - seasonal	169,255	169,255	224,923	(55,668)
Emergency management	320,430	320,430	296,731	23,699
Coroner	127,000	127,000	127,003	(3)
E-911 system	1,044,132	1,044,132	940,132	104,000
Adult detention center	4,929,336	4,929,336	4,709,489	219,847
Court services	1,078,835	1,078,835	1,020,635	58,200
Total public safety	\$ 13,147,943	\$ 13,147,943	\$ 12,629,168	\$ 518,775

**GOODHUE COUNTY
RED WING, MINNESOTA**

*EXHIBIT A-1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Culture and recreation				
Historical society	\$ 92,500	\$ 92,500	\$ 92,500	\$ -
Regional library	468,000	468,000	468,000	-
Byllesby Dam	22,500	22,500	3,940	18,560
Other culture and recreation	39,307	39,307	106,660	(67,353)
Total culture and recreation	\$ 622,307	\$ 622,307	\$ 671,100	\$ (48,793)
Conservation of natural resources				
County extension	\$ 166,486	\$ 167,178	\$ 158,773	\$ 8,405
Soil and water conservation	515,000	515,000	512,687	2,313
Fairs	27,000	27,000	35,500	(8,500)
Total conservation of natural resources	\$ 708,486	\$ 709,178	\$ 706,960	\$ 2,218
Economic development				
Regional Railroad Authority	\$ 3,500	\$ 3,500	\$ 4,375	\$ (875)
Debt service				
Principal	\$ 17,568	\$ 17,568	\$ 17,568	\$ -
Total Expenditures	\$ 25,093,414	\$ 25,133,419	\$ 25,637,086	\$ (503,667)
Excess of Revenues Over (Under)				
Expenditures	\$ (870,247)	\$ (913,145)	\$ (1,105,658)	\$ (192,513)
Other Financing Sources (Uses)				
Transfers in	\$ 167,594	\$ 167,594	\$ 1,456,044	\$ 1,288,450
Transfers out	(1,178,927)	(1,188,627)	(1,478,117)	(289,490)
Bonds issued	688,000	688,000	-	(688,000)
Proceeds from sale of capital assets	-	-	62,474	62,474
Total Other Financing Sources (Uses)	\$ (323,333)	\$ (333,033)	\$ 40,401	\$ 373,434
Net Change in Fund Balance	\$ (1,193,580)	\$ (1,246,178)	\$ (1,065,257)	\$ 180,921
Fund Balance - January 1	18,992,875	18,992,875	18,992,875	-
Fund Balance - December 31	\$ 17,799,295	\$ 17,746,697	\$ 17,927,618	\$ 180,921

**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 3,639,494	\$ 3,639,494	\$ 3,749,483	\$ 109,989
Licenses and permits	7,040	7,040	13,922	6,882
Intergovernmental	6,936,646	6,936,646	10,387,020	3,450,374
Charges for services	7,700	7,700	4,646	(3,054)
Miscellaneous	30,500	30,500	29,116	(1,384)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenues	\$ 10,621,380	\$ 10,621,380	\$ 14,184,187	\$ 3,562,807
Expenditures				
Current				
Highways and streets				
Administration	\$ 447,288	\$ 447,288	\$ 398,896	\$ 48,392
Maintenance	3,318,676	3,372,676	3,113,908	258,768
Construction	14,412,465	14,412,465	14,687,922	(275,457)
Equipment maintenance and shop	960,286	970,286	996,890	(26,604)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total highways and streets	\$ 19,138,715	\$ 19,202,715	\$ 19,197,616	\$ 5,099
Culture and recreation				
Parks	42,351	42,351	12,937	29,414
Intergovernmental				
Highways and streets	375,874	375,874	421,804	(45,930)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	\$ 19,556,940	\$ 19,620,940	\$ 19,632,357	\$ (11,417)
Excess of Revenues Over (Under)				
Expenditures	\$ (8,935,560)	\$ (8,999,560)	\$ (5,448,170)	\$ 3,551,390
Other Financing Sources (Uses)				
Transfers in	\$ 503,432	\$ 503,432	\$ 1,233,068	\$ 729,636
Transfers out	(8,544)	(8,544)	(8,544)	-
Bonds issued	8,407,128	8,407,128	7,760,000	(647,128)
Premium on bonds issued	-	-	105,000	105,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Other Financing Sources (Uses)	\$ 8,902,016	\$ 8,902,016	\$ 9,089,524	\$ 187,508
Net Change in Fund Balance	\$ (33,544)	\$ (97,544)	\$ 3,641,354	\$ 3,738,898
Fund Balance - January 1	4,661,395	4,661,395	4,661,395	-
Increase (decrease) in inventories	-	-	193,783	193,783
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Balance - December 31	\$ 4,627,851	\$ 4,563,851	\$ 8,496,532	\$ 3,932,681

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

**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
HEALTH AND HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 5,313,577	\$ 5,313,577	\$ 5,326,410	\$ 12,833
Intergovernmental	6,227,241	6,227,241	7,746,467	1,519,226
Charges for services	1,304,878	1,304,878	1,245,847	(59,031)
Miscellaneous	355,711	355,711	438,318	82,607
Total Revenues	\$ 13,201,407	\$ 13,201,407	\$ 14,757,042	\$ 1,555,635
Expenditures				
Current				
Human services				
Income maintenance	\$ 3,891,081	\$ 3,891,081	\$ 4,174,940	\$ (283,859)
Social services	6,725,466	6,725,466	6,925,817	(200,351)
Total human services	\$ 10,616,547	\$ 10,616,547	\$ 11,100,757	\$ (484,210)
Health				
Quality assurance - health services	\$ 951,053	\$ 951,053	\$ 1,133,329	\$ (182,276)
Healthy communities/behaviors	1,237,612	1,237,612	1,099,015	138,597
Disaster preparedness	50,041	50,041	59,572	(9,531)
Infectious disease	122,015	122,015	98,140	23,875
Health services - administration	470,988	480,688	333,112	147,576
Total health	\$ 2,831,709	\$ 2,841,409	\$ 2,723,168	\$ 118,241
Total Expenditures	\$ 13,448,256	\$ 13,457,956	\$ 13,823,925	\$ (365,969)
Excess of Revenues Over (Under)				
Expenditures	\$ (246,849)	\$ (256,549)	\$ 933,117	\$ 1,189,666
Other Financing Sources (Uses)				
Transfers in	\$ 254,349	\$ 264,049	\$ 558,219	\$ 294,170
Transfers out	(7,500)	(7,500)	(7,500)	-
Total Other Financing Sources (Uses)	\$ 246,849	\$ 256,549	\$ 550,719	\$ 294,170
Net Change in Fund Balance	\$ -	\$ -	\$ 1,483,836	\$ 1,483,836
Fund Balance - January 1	5,519,545	5,519,545	5,519,545	-
Fund Balance - December 31	\$ 5,519,545	\$ 5,519,545	\$ 7,003,381	\$ 1,483,836

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, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 12,523	\$ 12,523	\$ 12,465	\$ (58)
Intergovernmental	127	127	164	37
Charges for services	-	-	1,000	1,000
Miscellaneous	58,634	58,634	55,588	(3,046)
Total Revenues	\$ 71,284	\$ 71,284	\$ 69,217	\$ (2,067)
Expenditures				
Current				
Economic development				
Community development	23,650	26,796	76,657	(49,861)
Excess of Revenues Over (Under)				
Expenditures	\$ 47,634	\$ 44,488	\$ (7,440)	\$ (51,928)
Other Financing Sources (Uses)				
Transfers in	10,000	10,000	10,000	-
Net Change in Fund Balance	\$ 57,634	\$ 54,488	\$ 2,560	\$ (51,928)
Fund Balance - January 1	657,900	657,900	657,900	-
Fund Balance - December 31	\$ 715,534	\$ 712,388	\$ 660,460	\$ (51,928)

This page was left blank intentionally.

**GOODHUE COUNTY
RED WING, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2014

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, 2014.

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund	\$ 25,133,419	\$ 25,637,086	\$ (503,667)
Special Revenue Funds			
Road and Bridge	19,620,940	19,632,357	(11,417)
Health and Human Services	13,457,956	13,823,925	(365,969)
Economic Development Authority Fund	26,796	76,657	(49,861)

This page was left blank intentionally.

SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

MAJOR FUND

This page was left blank intentionally.

**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT B-1

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,948,764	\$ 1,948,764	\$ 1,955,831	\$ 7,067
Special assessments	6,285	6,285	26,588	20,303
Intergovernmental	59,628	59,628	62,627	2,999
Miscellaneous	-	-	7,255	7,255
Total Revenues	\$ 2,014,677	\$ 2,014,677	\$ 2,052,301	\$ 37,624
Expenditures				
Debt service				
Principal	\$ 1,967,335	\$ 1,967,335	\$ 1,867,720	\$ 99,615
Interest	129,260	129,260	129,259	1
Administrative - fiscal charges	2,523	2,523	96,609	(94,086)
Total Expenditures	\$ 2,099,118	\$ 2,099,118	\$ 2,093,588	\$ 5,530
Excess of Revenues Over (Under) Expenditures	\$ (84,441)	\$ (84,441)	\$ (41,287)	\$ 43,154
Other Financing Sources (Uses)				
Transfers out	\$ -	\$ -	\$ (1,975,000)	\$ (1,975,000)
Premium on bonds issued	-	-	90,606	90,606
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ (1,884,394)	\$ (1,884,394)
Net Change in Fund Balance	\$ (84,441)	\$ (84,441)	\$ (1,925,681)	\$ (1,841,240)
Fund Balance - January 1	4,368,399	4,368,399	4,368,399	-
Fund Balance - December 31	\$ 4,283,958	\$ 4,283,958	\$ 2,442,718	\$ (1,841,240)

This page was left blank intentionally.

**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.

This page was left blank intentionally.

**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT C-1

**BUDGETARY COMPARISON SCHEDULE
WASTE MANAGEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 335,931	\$ 335,931	\$ 337,470	\$ 1,539
Licenses and permits	7,600	7,600	7,163	(437)
Intergovernmental	123,469	123,469	10,775	(112,694)
Charges for services	60,150	60,150	53,157	(6,993)
Interest on investments	330	330	328	(2)
Miscellaneous	216,000	216,000	176,706	(39,294)
Total Revenues	\$ 743,480	\$ 743,480	\$ 585,599	\$ (157,881)
Expenditures				
Current				
Sanitation				
Solid waste	\$ 55,507	\$ 55,507	\$ 90,679	\$ (35,172)
Recycling	649,359	649,359	571,467	77,892
Hazardous waste	146,600	146,600	27,732	118,868
Landfill	151,610	151,610	167,817	(16,207)
Total Expenditures	\$ 1,003,076	\$ 1,003,076	\$ 857,695	\$ 145,381
Excess of Revenues Over (Under) Expenditures	\$ (259,596)	\$ (259,596)	\$ (272,096)	\$ (12,500)
Other Financing Sources (Uses)				
Transfers in	259,596	259,596	211,830	(47,766)
Net Change in Fund Balance	\$ -	\$ -	\$ (60,266)	\$ (60,266)
Fund Balance - January 1	396,164	396,164	396,164	-
Fund Balance - December 31	\$ 396,164	\$ 396,164	\$ 335,898	\$ (60,266)

This page was left blank intentionally.

**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.

This page was left blank intentionally.

**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, 2014**

	Balance January 1	Additions	Deductions	Balance December 31
<u>FAMILY COLLABORATIVE FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 425,588	\$ 255,225	\$ 298,246	\$ 382,567
Due from other governments	24,475	111,333	107,277	28,531
Total Assets	\$ 450,063	\$ 366,558	\$ 405,523	\$ 411,098
<u>Liabilities</u>				
Due to other governments	\$ 450,063	\$ 366,558	\$ 405,523	\$ 411,098
<u>TAXES AND PENALTIES FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 780,726	\$ 53,824,120	\$ 53,768,732	\$ 836,114
<u>Liabilities</u>				
Due to other governments	\$ 780,726	\$ 53,824,119	\$ 53,768,731	\$ 836,114
<u>OTHER AGENCY FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 121,866	\$ 1,424,670	\$ 1,400,949	\$ 145,587
Accounts receivable	29,734	55,012	67,299	17,447
Total Assets	\$ 151,600	\$ 1,479,682	\$ 1,468,248	\$ 163,034
<u>Liabilities</u>				
Due to other governments	\$ 151,600	\$ 1,479,682	\$ 1,468,248	\$ 163,034

**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, 2014**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,328,180	\$ 55,504,015	\$ 55,467,927	\$ 1,364,268
Accounts receivable	29,734	55,012	67,299	17,447
Due from other governments	24,475	111,333	107,277	28,531
Total Assets	\$ 1,382,389	\$ 55,670,360	\$ 55,642,503	\$ 1,410,246
<u>Liabilities</u>				
Due to other governments	\$ 1,382,389	\$ 55,670,359	\$ 55,642,502	\$ 1,410,246

OTHER SCHEDULES

This page was left blank intentionally.

**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT E-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Shared Revenue

State

Highway users tax	\$	6,510,714
PERA rate reimbursement		61,078
Disparity reduction aid		29,144
Police aid		302,480
County program aid		1,620,574
Market value credit		275,142
Aquatic invasive species aid		30,801
Indian casino aid		79,576
Enhanced 911		127,809
		127,809

Total shared revenue **\$ 9,037,318**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	1,649,083
		1,649,083

Payments

Local

Local contributions	\$	430,793
Payments in lieu of taxes		226,420
		226,420

Total payments **\$ 657,213**

Grants

State

Minnesota Department/Board of		
Corrections	\$	261,859
Health		393,546
Human Services		1,500,945
Natural Resources		120,387
Public Safety		204,184
Revenue		3,529
Transportation		20,847
Veterans Affairs		24,714
Water and Soil Resources		155,932
Peace Officer Standards and Training Board		14,803
Pollution Control Agency		6,341
		6,341

Total state **\$ 2,707,087**

**GOODHUE COUNTY
RED WING, MINNESOTA**

**EXHIBIT E-1
(Continued)**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Grants (Continued)

Federal

Department of	
Agriculture	\$ 614,165
Interior	12,732
Justice	8,374
Transportation	3,894,019
Health and Human Services	3,282,290
Homeland Security	127,530

Total federal **\$ 7,939,110**

Total state and federal grants **\$ 10,646,197**

Qualified Energy Conservation Bonds Interest Subsidy **\$ 36,930**

Total Intergovernmental Revenue **\$ 22,026,741**

**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT E-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

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	\$ 166,534
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	<u>394,259</u>
Total U.S. Department of Agriculture		<u>\$ 560,793</u>
U.S. Department of the Interior		
Direct Payments in Lieu of Taxes	15.226	<u>\$ 12,732</u>
U.S. Department of Justice		
Direct State Criminal Alien Assistance Program	16.606	\$ 6,256
Bulletproof Vest Partnership Program	16.607	<u>2,118</u>
Total U.S. Department of Justice		<u>\$ 8,374</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction Cluster Highway Planning and Construction	20.205	\$ 3,826,337
Passed Through Minnesota Department of Natural Resources Highway Planning and Construction Cluster Recreational Trails Program	20.219	66,953
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	31,946
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	<u>10,524</u>
Total U.S. Department of Transportation		<u>\$ 3,935,760</u>

**GOODHUE COUNTY
RED WING, MINNESOTA**

**EXHIBIT E-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

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	\$ 3,500
Passed Through Minnesota Department of Health		
Public Health Emergency Preparedness	93.069	28,328
Universal Newborn Hearing Screening	93.251	1,350
Immunization Cooperative Agreements	93.268	500
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	150
Temporary Assistance for Needy Families	93.558	47,462
(Total Temporary Assistance for Needy Families 93.558 - \$295,425)		
Maternal and Child Health Services Block Grant to the States	93.994	35,079
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	4,679
Temporary Assistance for Needy Families	93.558	247,963
(Total Temporary Assistance for Needy Families 93.558 - \$295,425)		
Child Support Enforcement	93.563	993,653
Refugee and Entrant Assistance - State-Administered Programs	93.566	2,178
Child Care and Development Block Grant	93.575	20,065
Stephanie Tubbs Jones Child Welfare Services Program	93.645	3,084
Foster Care - Title IV-E	93.658	248,942
Social Services Block Grant	93.667	181,494
Chafee Foster Care Independence Program	93.674	4,634
Children's Health Insurance Program	93.767	836
Medical Assistance Program	93.778	1,119,300
Total U.S. Department of Health and Human Services		\$ 2,943,197
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	\$ 42,610
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	3,513
Emergency Management Performance Grants	97.042	62,202
Direct		
Port Security Grant Program	97.056	51,703
Passed Through Southeastern Minnesota Region One Homeland Security and Emergency Management Board		
Homeland Security Grant Program	97.067	199
Total U.S. Department of Homeland Security		\$ 160,227
Total Federal Awards		\$ 7,621,083

**GOODHUE COUNTY
RED WING, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

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, 2014. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Goodhue County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Goodhue County.

3. Summary of Significant Accounting Policies

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

4. Clusters

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

Highway Planning and Construction (CFDA #20.205 and 20.219)	\$ 3,893,290
---	--------------

**GOODHUE COUNTY
RED WING, MINNESOTA**

5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue (Exhibit E-1)	\$ 7,939,110
Grants deferred in 2013 and recognized in 2014	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (CFDA #10.561)	(58,816)
State and Community Highway Safety (CFDA #20.600)	(2,885)
Temporary Assistance for Needy Families (CFDA #93.558)	(41,031)
Child Support Enforcement (CFDA #93.563)	(114,132)
Child Care and Development Block Grant (CFDA #93.575)	(1,717)
Foster Care - Title IV-E (CFDA #93.658)	(18,207)
Medical Assistance Program (CFDA #93.778)	(165,364)
Grants deferred in 2014	
Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA #10.557)	5,444
Child Care and Development Block Grant (CFDA #93.575)	1,358
Emergency Management Performance Grants (CFDA #97.042)	32,697
Highway Planning and Construction (CFDA #20.205)	44,626
	<hr/>
Expenditures per Schedule of Expenditures of Federal Awards (Exhibit E-2)	\$ <u>7,621,083</u>

6. Subrecipients

During 2014, Goodhue County did not pass any federal money to subrecipients.

**Other Information
Section**

This page was left blank intentionally.

**GOODHUE COUNTY
RED WING, MINNESOTA**

EXHIBIT F-1

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

	2013		2014		2015	
	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)
Tax Capacity						
Real property	\$ 58,769,961		\$ 62,384,071		\$ 65,829,224	
Personal property	905,916		916,571		981,850	
Tax increment	(784,517)		(469,659)		(405,072)	
Net Tax Capacity	<u>\$ 58,891,360</u>		<u>\$ 62,830,983</u>		<u>\$ 66,406,002</u>	
Taxes Levied for County Purposes						
General	\$ 15,784,184	27.800	\$ 16,510,028	27.133	\$ 16,723,742	26.102
Road and Bridge	3,622,414	6.172	3,200,234	5.110	3,607,808	5.449
Health and Human Services	5,173,555	8.815	5,367,654	8.571	5,367,654	8.107
Economic Development						
Authority	12,650	0.022	12,650	0.020	2,894	0.004
Debt Service	2,023,796	3.436	1,968,597	3.134	2,000,000	3.011
Waste Management	320,059	0.545	339,850	0.543	313,392	0.473
Total Taxes Levied for County Purposes	<u>\$ 26,936,658</u>	<u>46.790</u>	<u>\$ 27,399,013</u>	<u>44.511</u>	<u>\$ 28,015,490</u>	<u>43.146</u>
Tax Capacity - Light and Power						
Transmission	\$ 54,446		\$ 54,596		\$ 56,694	
Distribution	7,512		7,534		7,818	
Total Tax Capacity - Light and Power	<u>\$ 61,958</u>		<u>\$ 62,130</u>		<u>\$ 64,512</u>	
Light and Power Tax Levies (distributed in accordance with Minn. Stat. § 273.40, as amended)						
Transmission	\$ 59,001		\$ 56,631		\$ 60,125	
Distribution	8,140		7,815		8,291	
Total Light and Power Tax Levies	<u>\$ 67,141</u>	108.366	<u>\$ 64,446</u>	103.727	<u>\$ 68,416</u>	106.051

**GOODHUE COUNTY
RED WING, MINNESOTA**

*EXHIBIT F-1
(Continued)*

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

	2013		2014		2015	
	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)
Market Value - Light and Power						
Transmission	\$ 2,759,800		\$ 2,767,300		\$ 2,872,200	
Distribution	375,600		376,700		390,900	
Total Market Value - Light and Power	\$ 3,135,400		\$ 3,144,000		\$ 3,263,100	
Light and Power Tax Market Value Levies						
Transmission	\$ 5,269		\$ 5,235		\$ 5,034	
Distribution	717		713		685	
Total Light and Power Tax Market Value Levies	\$ 5,986	0.191	\$ 5,948	0.189	\$ 5,719	0.175
Market Value - State General Tax						
Transmission	\$ 54,446		\$ 54,596		\$ 56,694	
Distribution	7,512		7,534		7,818	
Total Market Value - State General Tax	\$ 61,958		\$ 62,130		\$ 64,512	
State General Tax Market Value Levies						
Transmission	\$ 28,597		\$ 28,477		\$ 28,823	
Distribution	3,946		3,930		3,975	
Total State General Tax Market Value Levies	\$ 32,543	52.523	\$ 32,407	52.160	\$ 32,798	50.840
Special Assessments						
Belle Creek Watershed Improvement Bonds	\$ 20,000	0.799	\$ 20,000	0.673	\$ 20,000	0.695
Percentage of Tax Collections for All Purposes	99.34%		99.46%			

(Unaudited)

Page 87

This page was left blank intentionally.

**GOODHUE COUNTY
RED WING, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

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

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

The major programs are:

State Administrative Matching Grants for Supplemental Nutrition Assistance Program	CFDA #10.561
Highway Planning and Construction Cluster Highway Planning and Construction	CFDA #20.205
Recreational Trails Program	CFDA #20.219

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 2008-003

Segregation of Duties - County Departments

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

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

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

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

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

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

Client's Response:

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

Finding 2012-001

Segregation of Duties - IFS-General Ledger System Security Controls

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

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

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

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

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

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

Client's Response:

The County appropriately segregated duties in regards to user maintenance security. In 2015, the software vendor fixed the programming glitch, and this should no longer be an issue.

Finding 2013-001

Segregation of Duties - Payroll Maintenance

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

Condition: Personnel responsible for entering maintenance changes into the payroll accounting system are also responsible for processing payroll payments to employees. Procedures were established to have personnel independent of the payroll payment process review a listing (Audit Log) of maintenance changes to the payroll accounting system after each payroll is processed. Payroll maintenance changes made in March were reviewed in October. No other payroll maintenance changes were reviewed during the year.

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

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

Cause: The County indicated the Human Resources Department was in a transition period due to changes and maintenance to the payroll system.

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

Client's Response:

The County is implementing a new payroll program and will need time to develop an appropriate process to reviewing these changes.

ITEMS ARISING THIS YEAR

Finding 2014-001

Segregation of Duties - Payroll Entry

Criteria: Controls in place over operations should be designed to provide reasonable assurance material errors will be prevented or detected in a timely manner. Payroll hours entered into the payroll system should be reviewed to the approved timesheets. These procedures should be performed by an employee independent of the payroll input process in a timely manner.

Condition: Procedures were established to have personnel independent of the payroll input process review hours entered into the payroll system to ensure the accuracy of the data input prior to payroll being processed. In two of the eight payrolls tested, this review was not documented.

Context: County procedures indicate timesheets are to be approved by supervisors. Approved timesheets are sent to the Human Resources Department where the information is input into the payroll system.

Effect: There is an increased risk errors or irregularities will not be detected in a timely manner when established internal controls are not followed.

Cause: The County indicated the Human Resources Department was in a transition period due to changes and maintenance to the payroll system.

Recommendation: We recommend an individual independent of the payroll input process review hours input into the payroll accounting system on a timely basis.

Client's Response:

The County is adding an electronic timesheet program in 2015/2016 which will change the way timesheets are reviewed by supervisors and department heads.

Finding 2014-002

Audit Reclassification

Criteria: A deficiency in internal controls 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 in the financial statements on a timely basis.

Condition: During the audit, reclassification journal entries were necessary which resulted in significant changes to the County's financial statements. These reclassifications were reviewed and approved by the appropriate staff and are reflected in the financial statements.

Context: The inability to detect significant misstatements in the financial statements increases the likelihood the financial statements would not be fairly presented.

Effect: Audit reclassification journal entries were necessary to decrease net investment in capital assets and restricted for highways and streets net position and increase unrestricted net position in the government-wide conversion trial balance. An audit reclassification journal entry was also necessary to decrease fund balance restricted for bonded highway construction projects and increase fund balance assigned for highways and streets in the Road and Bridge Special Revenue Fund.

Cause: The County indicated the errors occurred due to the nature and timing of the bond proceeds (unspent proceeds at year-end).

Recommendation: We recommend the County review internal control procedures over trial balance and financial statement preparation to ensure revenues and expenditures are properly classified in the County's financial statements.

Client's Response:

The County continues to look for ways to improve this process. 2014 was an unusual year due to the timing and spend down of bond proceeds. The County followed past procedures when reporting these amounts and will update procedures accordingly.

PREVIOUSLY REPORTED ITEM RESOLVED

Segregation of Duties - Disbursements (2013-002)

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

Resolution

Personnel independent of the vendor payment process review the general ledger to original invoices to ensure payments are for approved County expenditures.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER ITEM FOR CONSIDERATION

GASB Statement No. 68, Accounting and Financial Reporting for Pensions

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for your calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement 68 significantly changes pension accounting and financial reporting for governmental employers that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of the County's government-wide statement of financial position. The County's financial position will be immediately impacted by its unfunded share of the pension liability.

Statement 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years - deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement 68.

The net pension liability that will be reported in Goodhue County's financial statements is an accounting estimate of the proportionate share of PERA's unfunded liability at a specific point in time. That number will change from year to year and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by employers to report the net pension liability and deferred outflows/inflows of resources.

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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

Independent Auditor's Report

Board of County Commissioners
Goodhue County
Red Wing, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Goodhue County, Minnesota, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 11, 2015. Our report includes a reference to other auditors who audited the financial statements of South Country Health Alliance joint venture as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters. The financial statements of the South Country Health Alliance were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 2008-003, 2012-001, 2013-001, 2014-001, and 2014-002, that we consider to be significant deficiencies.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

In connection with our audit, nothing came to our attention that caused us to believe that Goodhue County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Other Matters

Also included in the Schedule of Findings and Questioned Costs is an other item for consideration. We believe this information to be of benefit to the County, and we are reporting it for that purpose.

Goodhue County's Response to Findings

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

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 11, 2015

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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

Independent Auditor's Report

Board of County Commissioners
Goodhue County
Red Wing, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Goodhue County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2014. Goodhue County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Goodhue County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit

includes examining, on a test basis, evidence about Goodhue County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Goodhue County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

Report on Internal Control Over Compliance

Management of Goodhue County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 11, 2015

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR